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ABSTRACT

This self-study unit focuses on managing resources--materials, equipment, personnel, money, energy, time, and information. The material is designed primarily for those in a supervisory or junior management position working within their company's policies and systems. The unit may be of value to the small business proprietor, as an introduction to the key concepts and techniques. Part 1 looks at the planning, monitoring, and control of resources. It focuses on the contribution that supervisors and department and unit managers make. The three sections are a framework for managing resources, cost areas of a business, and control systems and techniques. Part 2, which looks at purchasing, storage, stock, and sales control, has three sections: identifying equipment and supply needs; controlling receipt, storage, and issues of resources; and procedures for handling cash. Each section begins with a statement of the objectives to be achieved. Summaries of key points covered end each section. Informative material is followed by activities, some of which ask the user to relate the information to his or her own experience and knowledge. A completion time guide is provided for each activity; information to consider or suggested solutions are provided. The unit should take around 20 hours to complete. (YLB)

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INCREASING OPPORTUNITIES
for
SUPERVISORS AND MANAGERS

CONTROLLING COSTS

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OPERATIONAL
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Managing Resources
------MODULE------

CONTROLLING COSTS

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CONTROLLING COSTS

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HOW TO USE THIS UNIT

The material in *Controlling Costs* has been split into two. Part 1 looks at the planning, monitoring and control of resources, focusing on the contribution which supervisors, department, and unit managers make. If you have attended the HCTC course and are working towards the NEBSM Certificate in Supervisory Management, or the BTEC Continuing Education Certificate in Hospitality Management, the three sections in Part 1 are essential. They will also help you develop your competency in the generic management NVQ/SVQ units in this area.

Part 2, which looks at purchasing, storage, stock and sales control, will help you develop your competency in the Catering and Hospitality Supervisory Management NVQ/SVQ level 3 units:

- control the receipt, storage and issue of resources
- contribute to the identification of equipment and supply needs
- maintain practices and procedures for handling cash/cash equivalents
- maintain practices and procedures for handling foreign cash/cash equivalents.

At the start of each section is a statement of the objectives you will be able to achieve as a result of working through that material. Summaries of the key points covered end each section.

From time to time you will be asked to relate information given in the text to your own experience and knowledge. Space is provided below these activities for you to write your answers. Where you feel help will be useful, do ask your manager or assessor for advice - the way in which you complete the activities is likely to count towards your assessment for the NVQ/SVQ units. A guide is given to how long each activity should take, and information you might usefully consider, or suggested solutions, are given on the following page.

In total, the unit will take around 20 hours to work through. This includes careful reading of the text. To get the most value from the material, make sure you have thoroughly understood each item of information before moving on, and return as often as you need to earlier sections. Try not to skip through the self-study unit as you might a newspaper or light novel. If you are already familiar with some of the material, you will be able to bypass those pages, or you can go direct to the sections that apply to your situation. Although *Controlling Costs* follows a carefully thought through order, self-learning needs to be fully controlled by the individual concerned - and that is you, not the authors.

INTRODUCTION

Controlling Costs is about managing resources - materials, equipment, personnel, money, energy, time and information. This requires a familiarity with basic accounting techniques, with a certain amount of jargon, and with fairly straightforward financial calculations.

The material is designed primarily for those in a supervisory or junior management position, who are working within policies and systems established by the company or organisation they work for. As such, the flow of information to their managers, colleagues, staff, suppliers and contractors is fundamental to successful cost control.

Controlling Costs will also be of value to the small business proprietor, as an introduction to the key concepts and techniques.

MODULE OBJECTIVES

After working through this section you will be better able to:

SECTION 1.1 *A framework for managing resources*

> explain why it is necessary to control costs

> describe the levels of responsibility towards resource control in your organisation, and your own role in the system

> identify what information you need, and what information you need to pass on, in order to effectively manage resources

> describe what is meant by the main accounting terms, and how they relate to those in use in your workplace.

SECTION 1.2 *The cost areas of a business*

> describe how and where costs are incurred

> calculate sales excluding VAT

> work out gross profit percentages

> contribute to the improvement of productivity in your workplace

> control energy costs

> identify ways of using resources in a more environmentally efficient manner.

SECTION 1.3 *Control systems and techniques*

> state the most frequently used methods for monitoring business results

> explain the purpose and main features of forecasts, budgets and operating statements

> contribute to the preparation of forecasts, budgets and operating statements for your area of responsibility

> compare operating results for your area of responsibility with budget, establish the likely causes of variations and take action towards correcting them

> explain the purpose and main features of standard costing and yield testing

> describe the effect of variations in sales mix on gross profit percentages.

After working through this section you will be better able to:

SECTION 2.1 *Identifying equipment and supply needs*

> state the various stages in the purchasing and stock control process

> list the factors which should be taken into account in deciding what quality, and what quantity to purchase

> implement and maintain efficient procedures to identify actual and potential purchasing requirements

> identify and select suitable suppliers (where appropriate).

SECTION 2.2 *Controlling the receipt, storage and issues of resources*

> monitor and control the receipt of goods

> control the storage of stock/goods

> control the issue of stock/goods

> implement a physical stocktake within your area of responsibility

> identify what factors might cause variances to gross profit targets.

SECTION 2.3 *Procedures for handling cash*

> state the various stages in sales control

> balance up cash takings

> identify the principal security and safety risks in handling cash, foreign currency, cheques, vouchers and so forth

> describe procedures which will minimise these risks

> deal effectively with irregularities and discrepancies which do occur.

CONTROLLING COSTS

SECTION 1.1

A framework for managing resources

After working through this section you will be better able to:

- explain why it is necessary to control costs
- describe the levels of responsibility towards resource control in your organisation, and your own role in the system
- identify what information you need, and what information you need to pass on, in order to effectively manage resources
- describe what is meant by the main accounting terms, and how they relate to those in use in your workplace.

Think for a moment why your company or organisation exists. What services and products does it supply, and why? Where does the money come from to pay your salary and that of your colleagues and staff? How do you judge how successful you are?

The continued existence of the companies and organisations we work for depends on keeping the costs of operating them within the resources available. In education and welfare catering, NHS hospitals, and so forth, this will mean the monies made available by the government or local authority, topped up by what can be charged to students, patients, and other end users.

For other hotel and catering establishments the main or only source of finance will be from sales to customers. If the business is new, the owners might be prepared to subsidise operating costs for a period, but in the long term the health of the enterprise depends on the profits it makes.

These profits provide a return on the investment in the business made by the owners and shareholders, and pay for further investment in better equipment, improved facilities and services, greater rewards for management and staff, and new jobs.

ACTIVITY 1
Time guide: 10 minutes

Remind yourself of the benefits of effective management of resources for:

1. the business or organisation

2. staff, their managers and supervisors

Benefits for the business or organisation

- survival
- expansion/growth
- provide employment
- better equipment
- future security
- better return for owners/shareholders
- better rewards for staff
- better service/products for customers

Benefits for staff, their managers and supervisors

- job security
- less pressure from above
- professionalism
- better earning prospects
- less aggravation from customers
- job satisfaction

ACTIVITY 2
Time guide: 5 minutes

Note below the main ways of improving profit in a hotel and catering business.

There are three main ways of improving profit in a hotel and catering business:

- increasing the number of customers
- putting prices up
- reducing costs.

Of course, none of these can be treated in isolation:

- putting prices up may reduce the number of customers
- reducing costs might lead to a drop in standards, which results in customer dissatisfaction and a fall off in business
- reducing costs might jeopardise standards of health, hygiene and safety to the detriment of customers and staff
- reducing costs might also lead to environmental consequences which are unacceptable to the community, result in unfavourable publicity and turn customers away.

As its name suggests, the focus of this self-study unit is on costs: controlling them so that both profits and sales are maximised on a continuing basis. Customer care, pricing and other aspects of marketing are dealt in companion HCTC titles:

- *Customer Care Management*
- *Making Financial Decisions*
- *Maximising Occupancy*
- *The Pub Product*
- *Food and Beverage Provision*
- *Promoting Leisure.*

ACTIVITY 3
Time guide: 10 minutes

You are asked to give a short talk to the staff of a flourishing hotel and catering business about the importance of cost control. Because things seem to be going so well, and the staff are very content with their regular bonuses, you have to think carefully about the line you are going to take. Make some notes for your talk below.

You might find it useful to point out:

* that small cost savings on each meal, drink or bedroom sold become significant when large numbers are involved and over an extended period of time

* when a business is flourishing, there is often a need to pay overtime and to recruit part-time and casual staff - with time, everyone can get used to there being plenty of staff about, when really the work does not justify so many people

* should the business meet difficult times, even if it is because winter or certain periods are usually quiet, it will be more difficult to regain control of costs that have got out of hand.

No matter how well motivated, people can slip into bad habits without realising it, and it will not always be easy to put matters right again.

RESPONSIBILITY FOR RESOURCE CONTROL

Your staff clearly have a role to play in controlling resources. You have a role to play. Your managers and directors have a role to play.

ACTIVITY 4
Time guide: 20 minutes

Use the space below and the suggestions on the checklist opposite to review your responsibilities for managing resources in your workplace.

	YES	*NO*	*COMMENTS*
Cash handling	☐	☐	
Banking	☐	☐	
Ordering of liquor, food and non-consumables	☐	☐	
Stock security	☐	☐	
Choosing suppliers	☐	☐	
Setting stock levels	☐	☐	
Stocktaking and stock evaluation	☐	☐	
Writing menus	☐	☐	
Costing products, eg menu items, cocktails	☐	☐	
Costing services, eg conference facilities	☐	☐	
Monitoring sales mix	☐	☐	
Drawing up staff rotas	☐	☐	
Setting staff rates of pay	☐	☐	
Authorising overtime payment	☐	☐	
Maintaining targets of sales and costs	☐	☐	
Maintaining gross profit levels	☐	☐	
Setting selling prices	☐	☐	
Setting gross profit margins on products/services	☐	☐	
Preparing forecasts	☐	☐	
Preparing budgets	☐	☐	

If you were the proprietor or chief executive of your establishment, then of course all the areas you have just considered would be your responsibility, and ones such as investment decisions, negotiating additional finance, planning cash flows and initiating long term strategies.

If you were the general manager of a unit within a company, the areas within your control would depend on company policy, but you are likely to be influential in determining prices, staffing levels, and rates of pay for certain levels of staff.

If you are head of department or unit manager, you will:

- have *authority over the expenses* for which you are responsible
- be able to *influence the revenues* for which you are responsible
- and be able to *measure these revenues and expenses* realistically.

This is the lowest control level where both revenue and related expenses are the responsibility of one person and is known as *departmental operating profit*, or *unit operating profit*.

Below profit centre level, come *cost centres* or *service departments*. So in a hotel, the front of house manager might control departmental operating profit, and reporting to that person will be the head housekeeper (who has no control over the income from accommodation) and the head receptionist (who has no control over the cost of servicing the accommodation).

General guide to revenues and expenses included in departmental operating profit

	Food and beverage department	*Rooms department*
Net sales revenue	Restaurant revenue Bar revenue Banqueting revenue	Bedroom revenue
Cost of sales	Food commodities Beverage commodities	not applicable
Direct wages (including staff meals and accommodation)	Restaurant staff Kitchen staff Bar staff	Reception staff Housekeeping staff Porters
Other direct costs	Food and beverage uniforms Cutlery, utensils Food and beverage laundry	Rooms uniforms Cleaning materials Rooms laundry

THE ROLE OF COMMUNICATION

To plan your part in managing resources you need information. Some of this you can get yourself from the department or area of work under your control, other information you have to rely on getting from your colleagues and managers, and quite probably from the owners or head office.

In turn you need to pass information on to your staff. To some extent, you can rely on performance standards, and various rules and regulations as a means of requiring your staff to control costs. For example, the domestic services manager in a university hall of residence might issue one can a spray polish per cleaner per week. The dangers of procedures like this is that once the can is finished the person will merely rub surfaces over with a cloth or duster, and the standards will suffer. A thrifty cleaner might use as little polish as possible to avoid running out and soon build up a stock of cans of polish, all with some left - and then throw them away to avoid getting into trouble, or regularly take cans home to help control the costs of running their own home!

Generally a high level of motivation among staff is a much more significant factor in controlling costs. The challenge to you as their supervisor or manager is to communicate the appropriate amount of information in such a way that staff can see the link between their efforts and business results.

Another challenge you may face is to convince your managers that staff should enjoy some more direct benefit from playing their part in cost savings. In times when it is fairly easy to find alternative employment, the relationship between staff effort and jobs security is not a particularly powerful motivator to controlling costs.

ACTIVITY 5
Time guide: 15 minutes

Remind yourself of the information you need to play your part effectively in managing resources, and of the information your staff need.

INFORMATION YOU NEED	*INFORMATION YOUR STAFF NEED*

The following might help you add further items to your list.

INFORMATION YOU NEED

regular sales reports

regular cost reports

comparison of how your department/unit is performing compared to budget

information on assumptions made in setting budget, and how realistic they are proving

details of new policies which will affect costs, including employment costs (pending wage increases, changes to hours and conditions of work), and of new purchasing arrangements, including special company/organisation discount deals

details of price changes, special offers and other marketing initiatives which will affect sales

feedback on how your colleagues in the establishment and in other establishments in the company/organisation are doing

INFORMATION YOUR STAFF NEED

comparison of sales to targets

comparison of costs to targets

reports on overall business performance

information on initiatives which are expected to increase sales/reduce costs

results of incentive schemes

Think of the various methods which can be used to communicate financial information. If you have worked through the self-study unit *Communications* you may recall this advice:

> * Choose the most effective method for presenting each set of data. It should be interesting to look at, easy to understand, and make the best use of the medium in which it is presented.

ACTIVITY 6
Time guide: 25 minutes

1. *Choose a key issue regarding cost control that you need to communicate to your staff. Describe it briefly below, and the outcome you seek to achieve.*

2. *Describe the special factors you need to take into account in order to successfully communicate your chosen message to staff.*

3. *State the communication method you have chosen, its advantages and any disadvantages in your situation.*

4. *Review the effectiveness of the communication.*

Did you follow the advice given in the self-study unit *Communications*?

1. Decide beforehand what action or response you want from the receiver.

2. Select the method of communication that is most suitable for both the audience and the message being sent. Some messages might require the formality of a memo, others might best be handled with a poster or diagram, a group discussion, or training session. Go for quality of information, not quantity.

3. Take into account the receiver's abilities and limitations.

4. Be aware of the time factor involved.

5. Avoid ambiguity and vagueness.

6. Choose the appropriate tone with which to address your audience - formal or informal, firm or gentle, respectful or familiar.

7. Check that you are receiving feedback, whether it is in the form of the action you are seeking to encourage, a written reply, or a nod of understanding.

SUMMARY

* **Profit improvement is the concern of every manager and supervisor.**

* **Profits can be increased by (a) increasing the number of customers, (b) raising prices, (c) reducing costs. But none of these can be treated in isolation, and cost savings should not put service, product quality, health, hygiene or safety standards at risk, or cause harmful environmental effects.**

* **Even small increases in costs can have a significant effect on profit.**

* **Everyone has a role to play in controlling resources.**

* **Good communications play a key role in resource management - with more senior managers and directors, with colleagues, and with the staff involved.**

Take a break before starting the next section, which looks in more detail at the cost areas of a business

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SECTION 1.2

The cost areas of a business

After working through this section you will be better able to:

- > describe how and where costs are incurred
- > calculate sales excluding VAT
- > work out gross profit percentages
- > contribute to the improvement of productivity in your workplace
- > control energy costs
- > identify ways of using resources in a more environmentally efficient manner.

ACTIVITY 1
Time guide: 5 minutes

One evening, feeling peckish, your friend offers to make a couple of sandwiches to eat while you both watch the film on TV. Your friend is not terribly organised in the kitchen, so you decide to make a list of all the ingredients. If your friend gets these ready, you will make the sandwich.

Make a list of the ingredients below.

The ingredients would depend on what filling you have chosen. For a ham salad sandwich they might include:

* bread
* lettuce
* spring onion
* butter
* tomato
* mayonnaise
* ham
* cucumber
* seasoning.

The example of a sandwich has been used because it is straightforward and familiar to most people, no matter what sector of the industry they are working in, or their particular area of responsibility.

In the situation described, how much the sandwich costs to make depends directly on the cost of its ingredients. In turn this will depend on their quality - in a large supermarket you would have a choice of many varieties of bread and ham, and you might have preferred a fresh crab or smoked salmon sandwich, both considerably more expensive. It will also depend on their availability - salads are generally less expensive when they are in season, and you might have had to use frozen or tinned crabmeat.

ACTIVITY 2
Time guide: 10 minutes

Your friend, much enjoying the sandwich, mentions that several local businesses are looking for someone to produce and sell sandwiches for their staff during the week. You discuss what further costs might be involved in doing this, assuming you could run the operation from your home.

Make a list below of the other costs you would have to consider.

If the sandwich business was run from your home, over and above the ingredient costs you would have to spend money on:

- labels and wrapping materials for the sandwiches
- cleaning materials
- some means of carrying the sandwiches so that they could be taken around the offices and so forth, and look appetising
- transporting the ingredients from the shops to your home, and the made-up sandwiches from your home to the customers: a van might be necessary
- payment to people to help you, and the cost of providing them with overalls or uniform
- advertising leaflets, and the costs of distributing them
- telephone calls to accept special orders, and to contact suppliers
- a profit to justify your time.

You might, of course, also have to spend money on new kitchen equipment, and on replacement equipment should some wear out or get damaged.

These costs are typical of all businesses and small businesses in particular. Not all business activities have direct associated costs like those of the sandwich operation we considered on the previous page. For example if you were providing a typing service from home, using stationery provided by your clients, and equipment loaned by them for the purpose, then there would be no direct costs comparable to the ingredients of the sandwich.

ACTIVITY 3
Time guide: 5 minutes

Your sandwich business proves to be a great success and you get the opportunity to take over a small, well equipped catering unit in a nearby industrial enterprise park. List below the extra costs that are likely to be involved.

Depending on what you have in mind, the extra costs of moving to business premises are likely to include:

- rent
- water, lighting and heating charges
- telephone rental charge

and the expansion is likely to involve other costs associated with any but the smallest business, such as book-keeper/accountancy fees to look after the books, business rates, national insurance contributions on employed staff, and so forth.

Your friend is an accountant and offers to help you work out what the first year of operation of the sandwich business might look like in terms of income and costs. The *profit and loss account*, as this statement is known, looks encouraging:

			Accounting terminology
Money earned from sales		37,000	*Sales*
Less			
Ingredients: bread, butter, meat, etc		11,100	*Cost of sales*
Sub-total		25,900	*Gross profit*
Less			
Wages, overtime, national insurance, etc	9250		*Employment costs*
Wrapping materials	600		
Transport costs	1000		*Operating expenses*
Cleaning materials	700		
Advertising leaflets	475		
Rent	3300		
Standard business charge	950		
Water charges	700		*Fixed overheads*
Heating and lighting	2050		
Administration	400		
Sub-total		19,425	*Total operating costs*
TOTAL		6,475	*Net profit*

ACTIVITY 4

Time guide: 5 minutes

Your friend then sets you a little test. Study the following set of figures and comment briefly on which year shows the better result and why.

	YEAR 1	*YEAR 2*
Sales	*37,000*	*42,000*
Cost of sales	*11,100*	*13,020*
Gross profit	*25,900*	*28,980*

At first glance, year 2, with the higher gross profit, looks better. But quite rightly, you probably looked at the relationship between sales and cost of sales a little more closely. Did you conclude that something had gone wrong in year 2, because the gross profit should have been higher?

This simple example brings out two important points in controlling costs:

* figures taken in isolation rarely depict a true picture of performance as a whole
* measurements of performance must be presented in such a way that the comparison with previous results and with set targets is clear. So units of measurement should be the same - hence the widespread use of percentages.

The formula for calculating gross profit relative to sales is:

$$\frac{\text{Gross profit}}{\text{Net sales}} \text{ x } 100 = \text{Gross profit percentage}$$

In the sandwich business example the calculations are:

YEAR 1	YEAR 2
$\frac{25{,}900}{37{,}000} \text{ x } 100 = 70\%$	$\frac{28{,}980}{42{,}000} \text{ x } 100 = 69\%$

DEALING WITH VALUE ADDED TAX AND SERVICE CHARGE

VAT is an amount collected on behalf of government. All businesses with a turnover above the limit set by government have to charge VAT to their customers, and pay VAT on many of the goods they purchase. The difference between what they collect from customers and what they pay to suppliers is passed over to the government.

Thus in the sandwich business, the sales figure we have been using would not be the same as the total amount paid by customers. If we had had to work back from the monies paid by customers, the first step would have been to remove the VAT element.

The formula for removing the VAT element from sales (at a VAT rate of 17½%), acceptable to Customs and Excise, is as follows:

$$\frac{\text{Total sales}}{1.175} = \text{Net sales}$$

For example:

$$\frac{64{,}625}{1.175} = 55{,}000$$

If a **service charge** is added to customers' bills as a means of rewarding the efforts of staff, the amount collected is eventually paid to staff. Like VAT, it is not therefore taken into account in calculating sales.

ACTIVITY 5

Time guide: 20 minutes

Complete the following table by inserting the missing figures .... and working out the percentages (..%). Some of the figures you have been given before, but have a go at doing the calculation yourself before looking back to check your figures. Then in the space at the foot of the page, comment briefly on the results.

	YEAR 1		*YEAR 2*	
Sales inc VAT	*43,475*		*49,350*	
Net sales	.....	*100%*	....	*100%*
Cost of sales	*11,100*	...%	*13,020*	...%
Gross profit	......	...%	......	...%
Employment costs	*9250*	...%	*9712*	...%
Operating expenses	*2775*	...%	*2800*	...%
Other overheads	*7400*	...%	*7400*	...%
Net profit	.....	...%	.....	...%

	YEAR 1		YEAR 2	
Sales inc VAT	43,475		49,350	
Net sales	37,000	100%	42,000	100%
Cost of sales	11,100	30%	13,020	31%
Gross profit	25,900	70%	28,980	69%
Employment costs	9250	25%	9712	23%
Operating expenses	2775	7%	2800	7%
Other overheads	7400	20%	7400	18%
Net profit	6475	18%	9068	22%

We have already commented on the fact that cost of sales have increased in year 2, and clearly this would need looking into. Thanks to tight control of employment costs and operating expenses, the net profit has increased by 3%, a very encouraging result.

If your percentage figures in the above calculation were one point higher or lower than ours, this is probably due to rounding up. The general rule is that figures ending in:

5, 6, 7, 8 or 9 are rounded up to the next whole number
1, 2, 3 or 4 are rounded down to the nearest whole number.

In calculations of the type we have just done, rounding up may result in the total not coming to 100, so further adjustment may be required:

Cost of sales + gross profit = Net sales = 100%

YEAR 1:
30% + 70% = 100%

YEAR 2:
31% + 69% = 100%

Employment costs + operating expenses + other overheads = Gross profit

YEAR 1:
25% + 7% + 20% + 18% = 70%

YEAR 2:
23% + 7% + 18% + 21% = 69%

EMPLOYMENT COSTS

Hotel and catering is a labour intensive industry. Business success depends on effective use of staff, in other words, controlling employment costs.

Employment costs depend on the staff time involved and the cost per hour. Consider a hotel which holds functions from time to time, relying when it does so entirely on casual and part-time staff. The employment costs for the function can be calculated accurately in advance:

No	*Staff*	*Hours*	*£p per hour*	*£ p*
2	chefs	6	18.00	216.00
1	kitchen porter	4	8.25	33.00
1	head waiter	5	18.00	90.00
1	wine waiter	3	12.50	37.50
4	waiters/waitresses	4	10.25	41.00
Total				417.50

ACTIVITY 6
Time guide: 15 minutes

It is unlikely that the situation in your workplace is as straightforward as the example above. Even if there are occasions when you engage staff for a particular revenue earning event, the general situation with regard to controlling staff costs is more restricted. Describe briefly below what:

1. control you can exercise over staff costs

2. what these costs comprise in addition to basic wages/salaries

Methods of controlling employments costs you may have mentioned include:

- careful attention to staff rotas and holiday planning
- multi-skilling, so that each member of staff can perform a variety of jobs competently (and willingly)
- time and motion studies and similar techniques
- using more labour-saving equipment
- using convenience or partly-prepared food, cocktail mixes, hired linen, disposable products and so forth
- introducing self-service where customers will accept it
- employment of trainees whose employment and training costs are partly paid for by your TEC or local enterprise company
- strict control and monitoring of absenteeism
- special procedures for authorising overtime and use of agency staff
- employing more part-time staff, who agree to work flexi-hours - with appropriate warning - according to the level of business
- general measures to improve staff motivation and job satisfaction.

Employment costs will include some or all or the following:

- employer's National Insurance contribution
- overtime payments, shift allowances, holiday pay
- enhanced sick pay and maternity pay (the basic minimum is reclaimed from government)
- employer's pension scheme contribution
- costs of meals and other benefits provided to staff such as accommodation, uniforms, laundry and drycleaning allowance, discounts on company products
- bonus or commission payments
- payroll processing, personnel administration
- recruitment and training costs.

CONTROLLING ENERGY COSTS AND PROTECTING THE ENVIRONMENT

In most establishments, it is possible to make substantial savings in energy costs without lowering the standards of service offered to customers, and at the same time helping to protect the environment.

ACTIVITY 7
Time guide: 15 minutes

Imagine you have been asked to investigate saving energy and recycling systems at your workplace. Remembering anything you may have read on the subject, list as many suggestions as you can in the space below.

Here are some areas of potential energy saving to consider:

- using hot water in sensible quantities, turning off taps firmly and making sure no-one else leaves them running. Hot water is not always essential for cleaning tasks - sometimes lukewarm or even cold water, can be used instead. However very hot water is essential for rinsing glasses, china or cutlery, in order to disinfect
- switching off lights whenever you leave a room. A note on energy saving can be left next to the light switch as a reminder
- conserving heat by closing interior doors, not leaving windows open and closing curtains early in the evening. Slightly lowering room temperature, and turning off heating in rooms which are not being used
- using glass or dish-washing machines only when there is a full load
- pre-heating cooking equipment for the minimum time, and turning off equipment not in use
- defrosting refrigerators and freezers regularly - ice build-up increases energy use
- using stationery for its proper use. It is wasteful to write messages or draft letters on letterhead when a message pad or rough paper will do
- not photocopying documents unnecessarily.

And you might consider presenting a case for some of the following:

- heating systems - automatic systems can regulate heating patterns while minimising wasted energy; better instructions might be required to persuade customers and staff to use the equipment properly, and not to open the window because they feel too warm

- off-peak electricity - you may find that some tasks, for example washing linen, could be carried out at off-peak periods

- alternative sources of energy - comparisons of costs of using different sources of energy - for example, fuel oil or solid fuel instead of electricity or gas - might lead to savings.

And here are some examples of schemes and savings (reported in *Caterer and Hotelkeeper*) that have already paid dividends:

- Embassy has saved on energy costs by asking for monthly computer audits on energy efficiency at each of its hotels. The company is installing combined heat and power systems, an electricity generation system which uses waste heat to provide hot water and heating. It also uses low energy lighting.
- Hilton National's newest hotels use key card energy control switches which turn off bedroom power and lighting circuits when rooms are not occupied.
- Swallow and Holiday Inns do not use aerosols containing ozone damaging chloro-fluorocarbons (CFCs).
- Forte plc also uses CFC-free packaging materials, and the Stakis group has developed an ozone friendly programme for its hotels by working with its suppliers. Stakis is also removing all phosphates from cleaning materials.
- Hidden Hotels use recycled paper for notepads and computer paper. This overcomes the problem of seeming to lower standards by using, for example, recycled toilet paper (which is quite rough) in guest bedrooms.
- McDonald's, Burger King, Kentucky and other fast food chains use recycled packaging material for French fries, burgers, and so forth.
- The Savoy and Dorchester, among other hotels, have set up green committees to study suppliers' environmental claims and to plan projects, including recycling initiatives.
- Huge amounts of hotel soap are wasted every day. Forte Hotels hope to recycle the leftovers for charity.

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BASIC ACCOUNTING TERMS

Sale The exchange of goods, property or services for an agreed sum of money or credit.

Total sales or **Net sales revenue** Total sales income in a certain period, usually expressed net of VAT and commissions paid to travel agents, hotel and conference booking agents and so forth.

Cost of sales The cost of materials used to produce the sales. In the hotel and catering industry this is mainly food and beverage costs. It can also include such items as cigarettes, cigars and pipe tobacco sold in bars and sundry items sometimes sold from hotel receptions: shampoo, toothpaste, razor blades, tourist guides, postage stamps, postcards and so forth. In a retail shop at a motorway service area, it would be the cost of buying the goods which are sold in the shop.

Gross profit The amount remaining after deducting **cost of sales** from **net sales**. In other words, the difference between what the organisation paid for the goods, and what it sold them for.

Employment costs Wages, salaries and related employment costs such as the employer's contribution to pension schemes and national insurance.

Labour costs Alternative term for **employment costs**.

Operating expenses All the other costs of running the business: rent, insurance, advertising, heating and lighting, postage and telephone, business rates, depreciation on the larger items of equipment and property, and so forth.

Net profit The amount remaining after deducting **employment costs** and **operating expenses** from **gross profit**, and before taxation.

Profit and loss account Financial statement of what an organisation earned and spent over a specific period of time.

Variations

Sometimes employment costs are included in **operating expenses** (which might be referred to as **operating costs**).

Sometimes a distinction is made between:

> **operating expenses** which tend to vary with the level of business, such as advertising, heating and lighting, postage and telephone

and:

> **fixed overheads** such as rent, insurance, business rates, and depreciation and other operating expenses which are usually determined for the year concerned, irrespective of the level of business

Types of costs

Variable costs Costs which vary directly in proportion to the level of business.

Semi-variable costs Costs that move in sympathy with the level of business, but not in proportion to the volume.

Fixed costs Costs that are set over a period of time and do not vary within that period, whatever the level of business.

Direct costs Costs which can be totally allocated to a particular product or service. For example, servicing a guest bedroom in a hotel, or cooking a meal in a restaurant.

Indirect costs Costs which cannot be allocated to a particular product or service. For example, a new entrance sign for the hotel.

Other terms

Value Added Tax (VAT) Government tax charged on many goods and services, based on a percentage of their selling price (currently 17½%). Each business with a large enough turnover has to register for VAT purposes, and must keep comprehensive records of everything that it sells and purchases. VAT collected on sales has to be paid over to Customs and Excise on a regular basis. The VAT paid on goods and services purchased for business purposes can be reclaimed - provided they are supported by a receipt which shows the VAT registration number of the company from which the purchase was made.

Service charge An extra charge for service of a set percentage (usually between 5 and 15%) which some hotels and restaurants add to the cost of the customer's accommodation, food and drinks. The total service charge which is collected forms part of the staff's wages (usually as an extra), and is divided according to the policy of the establishment. Staff are liable for income tax on service charge payments, and the employer is responsible for deducting the income tax.

SOME BASIC ACCOUNTING FORMULAE

Gross profit = Sales - Cost of sales

Net profit = Gross profit - [Employment costs + Operating expenses]

VAT calculations (for VAT rate of 17½%)

$$\text{Selling price} = \text{Sales} + \text{Sales} \times \frac{17.5}{100}$$

$$\text{Sales} = \text{Selling price} \times \frac{100}{117.5}$$

$$\text{VAT} = \text{Selling price} \times \frac{17.5}{117.5}$$

SUMMARY

- **All businesses and organisations incur a variety of costs in the process of producing goods and services. Some of these are directly related to the cost of the product or service. The second group is to do with employment of the personnel involved. The remaining group are of a more general nature, applying to the business or organisation as a whole.**

- **Percentages provide a means of comparing measurements of performance with set targets and previous results.**

- **The VAT element has to be removed from sales, since it is an amount collected on behalf of government and nothing to do with the financial performance of a company or organisation.**

- **Service charge should also be removed from sales, where it is collected on behalf of staff and paid in full to them.**

- **For most hotel and catering operations, success depends on effective use of their staff. This involves careful planning of staffing levels, using the right grade staff for the job, providing training, ensuring that equipment and materials are available in proper working order, and supervising staff activities.**

- **Energy controls - from the straightforward to the sophisticated - and the use of environment-friendly products pay worthwhile dividends.**

Take a break before looking in more detail at control systems and techniques in the next section.

SECTION 1.3

Control systems and techniques

After working through this section you will be better able to:

- state the most frequently used methods for monitoring business results
- explain the purpose and main features of forecasts, budgets and operating statements
- contribute to the preparation of forecasts, budgets and operating statements for your area of responsibility
- compare operating results for your area of responsibility with budget, establish the likely causes of variations and take action towards correcting them
- explain the purpose and main features of standard costing and yield testing
- describe the effect of variations in sales mix on gross profit percentages.

The normal procedure is to calculate the profit or loss a business is making at regular, but not very frequent intervals - many will do so on a half yearly, or yearly basis. The calculations are quite time consuming: it is usually necessary to work out the value of stocks, how much money is owed to suppliers, how much money customers owe, what proportion of the rent relates to the period in question, what the electricity and telephone charges will be, and so forth. There is no need for us to spend time on this now - if you want more information, the companion self-study unit *Interpreting Financial Results* will help.

The question we want to address now, is: if profit and loss calculations are made infrequently, then how can we find out as quickly as possible that something is going wrong, and take action sooner rather than later? In the sandwich business example used in the previous section, you will remember that in year 2 cost of sales had increased from 30 to 31%. What if the increase had been to 38%, with the result that the net profit fell to £6128, or 15%? As owner of the business you would have been very concerned that costs had got badly out of hand, and frustrated that you hadn't been able to take action sooner.

ACTIVITY 1
Time guide: 20 minutes

Briefly note below some ways for monitoring, on a regular basis, the state of a business. Start with those used in your workplace.

The most frequently used methods for monitoring business results in the hotel and catering industry include:

- comparisons with budgets
- sales reports
- occupancy percentages - rooms, tables, beds and so forth
- gross profit percentages
- employment or wage cost percentages

and various variations on these, such as:

- sales per employee hour - this might be used in a retail shop, or in a fast food unit
- portion control of food and drink items - specifying that a certain size ladle is used for serving soup, filled to the brim, two ladles per person; or specifying that a medium portion of French fries are served in a particular size carton, filled to maximum capacity
- cost per meal served - hospitals and schools, for example, usually work to a budget per person, per day
- standard costing - calculating how much it costs to launder each item of linen in the in-house laundry, based on data of the overall costs and the number and types of items laundered in a certain period
- yield tests - calculating how many people can be served from a tin of grapefruit segments, for example
- wastage reports - graphs in the wash-up area showing how many replacement items of china and glassware have had to be issued in the last period to cover breakages, their cost, and the amount of sales revenue required to recover the cost
- stock reports - comparing the value of stock used with sales income. In a wine bar, for example, the difference between the stock of wines at the beginning and end of the day, calculated at their per bottle selling prices, should equal cash and credit sales during the day.

One of the features of hotel and catering businesses is that many of the services and products they sell are perishable. If you don't sell a bottle of wine one day, then at least you know it has not depreciated in quality and can be sold the next day, week, month - or later still, if it is an appropriate type and vintage.

But if you don't sell the raspberries you bought at a good price at the local market, intended for the day's special, it's more than likely that they will have started to rot the following day.

And if you don't sell a function room or bedroom one day, the loss in revenue can never be made up.

A second feature of the industry is that demand for services and products fluctuates. Of course there are exceptions: the demand for evening meals at a public boarding school is unlikely to vary during term time, unless there is a flu epidemic. However, the number of customers at a roadside restaurant or motorway service area can vary quite dramatically from one hour to the next. Weather conditions, roadworks, the beginning or ending of a large sports event, the day of the week, season of the year, and so forth, all have an effect on business.

ACTIVITY 2
Time guide: 10 minutes

Without worrying for the moment about how you would find out the information, think of the benefits that can be gained from knowing in advance what the level of business is likely to be for the next two weeks or so. Briefly note them below.

If you know in advance what your likely level of business will be, you can:

- plan staffing levels to ensure that customers experience the level of service they expect and are paying to receive, while keeping your employment costs in check and your staff happy with time off planned in advance, careful attention paid to holiday requests, and so forth

- order the correct quantities of supplies - food and drink items, cleaning materials, linen, stationery and so forth - thus improving quality and reducing wastage

- close down or open up different areas of the business/parts of the building to match the expected usage, so maximising staffing efficiency, and avoiding unnecessarily high maintenance and energy costs.

Forecasting is the name usually given to the process of planning for what may happen in the future.

In very small businesses, forecasting may be undertaken by the proprietors instinctively, on the basis of their experience of what has happened in the past, and their knowledge of factors which may affect the level of business, for instance:

- the season of the year
- the day of the week
- advance bookings
- the weather forecast
- events taking place in the area.

More sophisticated forecasting looks in some detail at what has happened in the past, for instance:

- occupancy levels
- ratio of cancellations and no shows to number of bookings
- analysis of results of specific marketing campaigns - an advertisement in the local paper usually leading to a certain number of bookings.

The larger businesses may use computer modelling techniques to produce detailed forecasts with calculated levels of accuracy. They are likely to take account of population and economic trends, changes in government policy, spending patterns, market research surveys, and so forth.

ACTIVITY 3

Time guide: 15 minutes

Every Wednesday the proprietor of a small restaurant made a forecast of the number of covers to be served on each day the following week. This was used to plan the purchasing requirements and to help in preparing the staff rota.

A simple exercise book was used to keep a record of the forecasts, and of the actual number of customers served. The proprietor had designed the book in such a way that results for previous years could be seen at a glance when she made her forecast: one page of the book was allocated to each week of the year.

Complete the entry for week 26, with your forecast of the number of covers you expect the restaurant to serve.

	Sun		*Mon*		*Tue*		*Wed*		*Thur*		*Fri*		*Sat*	
	For	*Act*	*For*	*Act*	*For*	*Act*	*For*	*Act*	*For*	*Act*	*For*	*Act*	*For*	*Act*
Week 24														
1989	35	37	15	11	25	22	25	15	30	29	45	46	60	63
1990	35	31	20	11	25	28	30	28	30	23	50	61	15	68
1991	40	22	20	23	25	28	30	32	35	31	50	47	65	62
Week 25														
1989	35	21	15	15	25	25	25	21	30	36	45	48	60	65
1990	15	35	20	31	25	21	30	31	30	36	50	53	65	62
1991	60	31	25	33	25	22	30		30		50		65	
Week 26														
1989	35	35	15	13	25	28	20	21	30	35	45	43	45	68
1990	40	41	20	25	25	26	30	31	30	32	30	48	65	61
1991	..		..		..		..		..		..		..	

The exact figures you came up with are not important. The object of the exercise was to show that forecasting at a fairly unsophisticated level is straightforward and well worthwhile. You should not worry if there is a small difference between your forecasts and actual results - indeed 100% accuracy must be attributed to luck not technique!

ACTIVITY 4
Time guide: 5 minutes

In many businesses it is not so easy to identify the sort of stable pattern we saw in the last activity. Can you see any pattern in the week's business of the Crown Hotel's restaurant? Comment below.

	Sun	*Mon*	*Tue*	*Wed*	*Thur*	*Fri*	*Sat*
Breakfast	*17*	*23*	*27*	*39*	*45*	*50*	*24*
Lunch	*33*	*14*	*30*	*23*	*42*	*23*	*11*
Dinner	*21*	*33*	*38*	*39*	*62*	*43*	*44*

Of course, it's a bit difficult identifying a pattern on only a week's results, and you would be right to comment that you needed more information about the Crown Hotel, such as:

- number of guests staying in the hotel
- information on special party bookings, and delegates at the hotel for meeting and conferences who might eat in the restaurant
- proportion of chance customers - local business people and others who use the restaurant because they are in the area, but have not made a booking.

ACTIVITY 5

Time guide: 20 minutes

You are now given the following information on the pattern of business at the Crown Hotel. Briefly note how you would set about forecasting the number of customers served in the hotel's restaurant, and any further information you would need.

	Sun	*Mon*	*Tue*	*Wed*	*Thur*	*Fri*	*Sat*
Guests staying in hotel	25	31	40	45	53	27	19
Breakfasts served	17	23	27	39	45	50	24
Lunches served	33	14	30	23	42	23	11
of which:							
hotel guests	2	7	11	9	13	13	6
special parties	-	-	10	-	18	-	-
chance guests	31	7	9	14	11	10	5
Dinners served	21	33	38	37	62	43	44
of which:							
hotel guests	19	22	27	31	36	21	13
special parties	-	6	-	-	18	-	-
chance guests	2	5	11	6	8	22	31

This is the approach we suggest for forecasting the level of business in the Crown Hotel's restaurant:

1. Establish how many guests are likely to be staying in the hotel each night: the process of forecasting room occupancy is no different in principle from forecasting the number of people who will be eating in a restaurant.
2. Estimate the percentages of hotel guests who take breakfast, lunch and dinner - you would need more than one week's results to do this - and apply these percentages to the room occupancy forecast.
3. Examine the bookings situation for special parties. If you are looking at the next week it is likely that the details of any special parties will be confirmed, but longer-term forecasts would have to include an assessment of what enquiries usually lead to firm bookings, and other factors such as special events on in the area.
4. From previous records - and you would need to have access to these - assess the number of chance customers which might be expected, taking into account special events, the weather, and so forth.

ACTIVITY 6
Time guide: 25 minutes

Carry out step 2 of the forecasting process for the Crown Hotel's restaurant, having established from the front office manager the next week's room occupancy forecast. Before you do this you will need to work through step 1: calculate the percentage of guests who ate breakfast, lunch and dinner in the one week that you have information on. (As we pointed out, this would be unrealistic in a real life situation, but for the purposes of this activity, it brings out some interesting points.)

	Sun	*Mon*	*Tue*	*Wed*	*Thur*	*Fri*	*Sat*
Step 1							
Hotel guests who eat:							
Breakfast	..%	..%	..%	..%	..%	..%	..%
Lunch	..%	..%	..%	..%	..%	..%	..%
Dinner	..%	..%	..%	..%	..%	..%	..%
Step 2							
Guests forecast	28	28	50	55	48	45	23
Hotel guests forecast to eat:							
Breakfast	...	...	...	...	...	...	...
Lunch	...	...	...	...	...	...	...
Dinner	...	...	...	...	...	...	...

Breakfasts: as the first step of your calculation showed, you do not have sufficient information about the Crown Hotel to know why more breakfasts were served on Friday and Saturday than there were overnight guests.

Lunches: it is difficult to establish any pattern with the take-up varying between 8% and 55% of hotel guests.

Dinners: although a trend is discernable, with the take-up varying between 68% and 78%, you cannot be sure from one week's data that this is reliable. It is possible, for example, that the hotel had an inclusive tour in for the week, on dinner, bed and breakfast terms.

	Sun	Mon	Tue	Wed	Thur	Fri	Sat
Hotel guests who eat:							
Breakfast	68%	74%	67%	87%	85%	185%	126%
Lunch	8%	23%	55%	27%	24%	48%	31%
Dinner	76%	71%	67%	69%	68%	78%	68%

ACTIVITY 7

Time guide: 15 minutes

From what you have learnt working through the Crown Hotel exercise, and from your knowledge of different types of hotel and catering establishment, list below all the various ways you can think of for making forecasting more accurate.

Here are some ideas for you to consider:

- When bookings or enquiries are made, establishing how the enquirer found out about the establishment: this provides a means of assessing effectiveness of advertising, guide entries and so forth.
- Using point of sales equipment which logs the time of orders, the type of products purchased, number of people in the party (for restaurant tables), method of payment and so forth. This provides detailed information on the pattern of business and popularity of different products (sometimes called the sales mix).
- Keeping up-to-date with changes in customer preferences, developments in the industry, local developments, factors affecting the economy.

THE LINK BETWEEN FORECASTING AND BUDGETING

You are quite likely to be involved in preparing forecasts for your department or unit. The next step, translating these forecasts into the business plan or budget, may involve you at some stage, and the outcome will certainly have an influence on how you work.

Like forecasts, budgets are to do with the future. They therefore share an element of uncertainty. What the budget does is to make various decisions on how the future will affect the business:

1. If a certain level of sales is likely, then what sales revenue can the business plans be based on?
2. Given the planned sales revenue, what direct costs will be incurred in achieving that revenue?
3. Which of these costs are influenced by the level of sales, and what proportion of sales should they form?
4. How will inflation affect these costs? Will prices have to be altered, and if so how will this affect sales volume?
5. Is the expected gross profit adequate to cover other costs and to provide the required net profit? If not, what action can be taken to increase sales, and, or decrease direct costs?
6. What costs will have to be set against gross profit, and how will inflation affect these?
7. How long should the budget period cover? A year is the usual length.
8. How many operating periods should be budget be broken down into? If the budget covers a year, typical operating periods are: 13 x 4 weeks, 12 x 1 month, or 52 x 1 week.
9. How will the budget be split into the various operating departments/income and cost centres?
10. How will the sales - and therefore the direct costs - vary between operating periods. In many hotel and catering establishments there will be quite strong seasonal variations in the level of business.

As you will realise, many of these questions are interlinked. If you have been involved in preparing budgets, you have probably had them sent back at one time or another with comments that costs are too high, or sales too low, or both!

If you are involved in preparing budgets as a department or unit manager, you will generally be given certain guidelines. For example that inflation will be 7%, and wage costs will rise 4%.

For senior management and proprietors, preparing budgets is quite a complicated and time-consuming process, involving:

* analysing past results
* forecasting future trends in sales and costs
* researching the likely level of inflation, its impact on customer spending, and on the prices charged by suppliers of different services (such as insurance, telephone, water, electricity and so forth) and different products (such as food and drink items, cleaning materials, stationery and so forth)
* researching other factors which will affect sales - from those of a quite specific nature, such as the opening of a new restaurant or hotel in the area, to those which are more general such as the trend in mortgage interest rates and house prices
* researching other factors which will affect costs, from specific issues such as a new Wages Council order increasing the minimum wage, to the more general, such as the introduction of 'green' tax raising the price of energy and related products
* anticipating management or other organisational changes which will affect business performance.

Nevertheless, budgets are an essential tool in good resource management. They enable:

* targets to be set for particular intervals of time - what these are will depend on the characteristics of the business and the level of control which is required
* actual performance to be compared with these targets, so that corrective action can be taken at the earliest opportunity.

And budgets help:

* establish clear lines of responsibility and accountability, so that individual managers and supervisors know where they stand
* coordinate the activities of management and staff, so helping in the communication process, and encouraging the development of effective teams
* monitor cash flow, so that spending plans are linked to income generation. This aspect will be of less concern to supervisors and department managers, but is obviously critical for the overall management of the operation.

The link between the assumptions and plans made in budgets, and the situation as it unfolds during the period of the budget, is provided by the *operating statement*. This compares actual results with the budget, usually for the month or whatever concerned, and cumulative results for the year so far.

Variances will usually be highlighted in actual and percentage terms, as a positive or negative figure. For the sales income, gross and net profit a positive variance is generally welcome, a negative variance a cause for concern. For costs, the reverse is generally true.

Variance statement is another term used for the document which summarises results for a particular department, income or cost centre, comparing them to budgets as positive or negative variations.

ACTIVITY 8

Time guide: 15 minutes

Study the operating statement below for the housekeeping department of the Stonebow Hotel. Note the areas you would investigate as head housekeeper, and what you would be looking out for.

Operating statement for Housekeeping Department *Stonebow Hotel*
Month 3 ended 31st March

****** Period ******			*Description*	****** Year to date ******		
Actual	*Budget*	*Variance*		*Actual*	*Budget*	*Variance*
			Occupancy %			
75	*82*	*-7*	*Overall*	*61*	*65*	*-4*
50	*61*	*-11*	*Twin rooms*	*55*	*60*	*-5*
95	*90*	*+5*	*Single rooms*	*80*	*81*	*-1*
63	*71*	*-8*	*Bed occupancy*	*61*	*64*	*-3*
			Employment costs £			
6321	*5800*	*+ 521 (+9.0%)*	*Wages*	*12,200*	*12,075*	*+125 (+1.0%)*
150	*75*	*+75 (+100%)*	*Overtime*	*450*	*150*	*+300 (+200%)*
310	*280*	*+30 (+10.7%)*	*Staff meals*	*675*	*650*	*+25 (+3.8%)*
			Other direct costs £			
1074	*1061*	*+13 (+1.2%)*	*Laundry*	*2850*	*2970*	*-120 (-4.0%)*
355	*350*	*+5 (+1.4%)*	*Cleaning materials*	*860*	*890*	*-30 (-3.4%)*
180	*165*	*+15 (+9.1%)*	*Staff uniforms*	*475*	*430*	*+45 (+10.5%)*
8390	*7731*	*+659 (+8.5%)*	***Total department costs***	*17,510*	*17,165*	*+345 (+2.0%)*

ACTIVITY 9
Time guide: 30 minutes

Following your discussion with the hotel manager about the housekeeping department results, you are asked you to prepare a revised budget for the next three months, and thus for the half year. You are to assume a wage increase of 5% from month 5, and the manager has given you the updated occupancy forecasts.

***** Year to date *****			Description	***** Budget *****			
Actual	Budget	Variance		Month 4	Month 5	Month 6	Half year
			Occupancy %				
61	60	-4	Overall	65	72	80	67
55	60	-5	Twin rooms	55	58	60	57
80	81	-1	Single rooms	80	85	90	85
61	64	-3	Bed occupancy	60	64	64	62
			Employment costs £				
12,200	12,075	+125 (1.0%)	Wages	...	...	...	....
450	150	+300 (200%)	Overtime	...	...	...	....
675	650	+25 (3.8%)	Staff meals	...	...	...	....
			Other direct costs £				
2850	2970	-120 (4.0%)	Laundry	...	...	...	....
860	890	-30 (3.4%)	Cleaning materials	...	...	...	....
475	430	+45 (10.5%)	Staff uniforms	...	...	...	....
17,510	17,165	+345 (2%)	**Total department costs**	....	....	....	....

For the three month period ended 31st March, occupancy is generally down on forecast. The fact that all employment costs are above forecast may be something to do with the high occupancy levels for single rooms (which are comparatively labour intensive). Nevertheless staff rotas, and the balance of full to part-time staff should be looked at urgently, and, if practical, the need for overtime eliminated.

It will be of some concern that laundry and cleaning costs were above budget in month 3, even though bed occupancy was 8% down.

Lack of cost control appears to have been particularly poor in month 3, with total department costs 8.5% above budget. If costs are not brought back under control quickly, the 2% positive variance in total department costs for the year to date will rapidly increase.

Our budget for the next three months has been calculated on the assumption that all costs will be brought firmly into line again. This means coping with one less member of staff and doing without overtime - the 5% wage increase is intended to compensate existing staff for the extra work. (You may have made different assumptions, and so you should not expect your figures to compare exactly with ours.)

***** Year to date *****			Description	***** Budget *****			
Actual	Budget	Variance		Month 4	Month 5	Month 6	Half year
			Occupancy %				
61	60	-4	Overall	65	72	80	67
55	60	-5	Twin rooms	55	58	60	57
80	81	-1	Single rooms	80	85	90	85
61	64	-3	Bed occupancy	60	64	64	62
			Employment costs £				
12,200	12,075	+125 (1.0%)	Wages	5300	5600	6500	28,700
450	150	+300 (200%)	Overtime	-	-	-	450
675	650	+25 (3.8%)	Staff meals	240	240	240	1395
			Other direct costs £				
2850	2970	-120 (4.0%)	Laundry	950	980	1000	5780
860	890	-30 (3.4%)	Cleaning materials	325	335	350	1870
475	430	+45 (10.5%)	Staff uniforms	150	155	160	940
17,510	17,165	+345 (2%)	**Total department costs**	6965	7310	7350	39,135

STANDARD COSTING

Standard costing is a useful cost control tool in catering businesses where food and drink products can be specified in some detail. Fast food operations are an example of the ideal application. The marketing formula of:

- a limited menu of low cost items
- standardised products throughout the chain
- served within a few moments of the customer ordering

relies on:

- precise purchasing specifications
- standardised preparation instructions
- standardised presentation - often the menu includes pictures of the finished dish, and even where this is not the case, the preparation staff will usually have pictures and detailed manuals to show the required standard
- strict portion control, for example: 1 x 1oz slice of processed cheese, 2 slices dill pickle, ½ measure mayonnaise; specified size of container for small/medium/large French fries, pre-measured mixes for milk shakes, teas, coffees and soft drinks
- carefully drawn up and properly implemented staff training
- rigorous quality control, so that food which is not sold within a specified time is discarded.

ACTIVITY 10
Time guide: 10 minutes

Describe briefly some other hotel and catering situations where standard costing could be, or is used as a form of cost control.

Other examples of hotel and catering situations where standard costing could be used include:

- bars: for mixed drinks and cocktails
- restaurants: for individual menu items
- hospitals and employee feeding: for individual dishes, and for meals
- conference centres: for items used by delegates, such as badges, note pads, pens, conference wallets
- hotel bedrooms: for guest supplies, such as shampoo, soap, sewing kits, stationery, laundry costs for sheet, towel, pillow slip and so forth.

The cost of producing a beefburger can be worked out by adding the costs of individual ingredients. For instance:

		£ p
1	Sesame bun	0.12
1 x 4 oz	Beef patty	0.65
½ oz	Onion rings	0.08
2 slices	Dill pickle	0.04
½ fl oz	Mayonnaise	0.06
		0.95

Some preliminary calculations may be required. If in the above example, the onion rings are purchased already prepared in bags of 10 lbs, the cost of a ½ oz portion would be worked out as follows:

10 lb bag costs	£25.60
Portions obtained	$\frac{10 \times 16}{\frac{1}{2}} = 320$
Cost of 1 portion	$\frac{£25.60}{320} = £0.08$

The cost of the slices of pickle may have to be worked out by counting the average number of pickles in a jar, estimating how many slices they would produce and then dividing the cost of the jar by the total number of slices:

Jar of pickle costs	£6.00
Jar will yield	300 slices
Slice of pickle costs	$\frac{£6.00}{300} = £0.02$

Employment costs

The examples of standard costing we have considered so far, have looked only at the direct materials costs - the ingredients, in the case of the beefburger.

In a restaurant, it is not generally practical, nor particularly useful to work out how much it costs to serve each customer. But in an accommodation establishment, the direct employment costs of servicing a unit of accommodation - bedroom, suite, hospital ward, holiday centre chalet or villa, or whatever - are substantial, and fairly straightforward to calculate. You need to know:

- which members of staff are involved in servicing the unit of accommodation: room attendant, linen room porter, floor housekeeper, head housekeeper and so forth
- what the hourly employment costs are for each of these members of staff
- on average, how long (in multiples/fractions of an hour) each person spends servicing the room (or supervising that the work is done effectively).

For example, for a family villa in a holiday centre:

Hours	*Member of staff*	*Hourly employment cost*	*Total cost*
1.25	Room attendant	3.65	4.56
0.15	Linen room porter	3.87	0.58
0.10	Supervisor	12.95	1.29
			6.43

YIELD TESTING

If the beef burgers referred to earlier were made on the premises, from low-cost joints of beef, then other complications are introduced into the costing:

- the price per kilo or pound of the original joint is known, but a certain amount will not be used in preparing the mince: fat and gristle which will have to be discarded, and bones, which in some catering operations can be used for stock, in others will have to be discarded
- while one 12 kilo joint might produce 9 kilos of mince, not all joints come in from the butcher at 12 kilos
- in spite of a detailed purchase specification, the yield of usable meat varies slightly from one joint to another.

The technique used to get round this situation is called *yield testing*.

1. Sufficient numbers of the item are prepared - following standard procedures - to get a reliable average result. (With food items, preparation will include cooking.)
2. Records are kept of the initial weight, volume or unit. For example: kilos of fresh carrots; litres of cleaning fluid; numbers of melons.
3. Records are also kept of the final weight, volume or unit - that is, when the item is ready to be served, or sold, or used. For example: 75 g portions of diced carrot; number of bathrooms cleaned; 100 g portions of melon balls.
4. The yield is calculated for each of the tests. For example: Day 1, Joseph produces 30 portions of carrots; Day 2, Eileen produces 28 portions; Day 3, Joseph produces 34 portions.
5. The average yield is calculated. For example:

$$\frac{30 + 28 + 34}{3} = 31 \text{ portions (rounded up from 30.66)}$$

Another example

Three legs of lamb were selected at random from the day's delivery and weighed before and after preparation.

YIELD TEST: *Diced leg of lamb*

DATE: *14 March 1991*

CARRIED OUT BY: *K Patel*

COMMENTS: *3 legs selected at random*

DETAILS	WEIGHT kg	%	COST per kg	TOTAL COST
Original weight	*6.90*	*100*	*£2.90*	*£20.01*
Bones, gristle, fat	*1.10*	*16*		
Diced meat	*5.80*	*84*	*£3.45*	*£20.01*

ACTIVITY 11
Time guide: 15 minutes

In the leg of lamb example, it has been assumed that the bones, gristle, and fat were discarded. Try the following calculation, which involves putting the bones to good use.

A wholesale cut of beef weighing 17 kg is purchased at £2.28 per kg. After boning and trimming, 10 kg of steak meat, 3 kg of stewing meat and 4 kg of bones were left. Bones are to be valued at £0.10 per kg, and stewing meat at £2.80 per kg. Work out below what cost per kilo should be given to the steak meat.

Cost of wholesale cut	17 x 2.28 = £38.76
Value of bones	4 x 0.10 = £0.40
Value of stewing beef	3 x 2.80 = £8.40
Value of steak meat	38.76 - (8.40 + 0.40) = £29.96
Cost per kg of steak meat	$\frac{£29.96}{10}$ = £3.00 per kg

A similar technique can be used for working out:

- * the yield of melon balls from melons
- * sliced salmon from a whole side
- * the number of bathrooms which can be serviced with a container of cleaning liquid

and so forth. It is simply a method of cost allocation.

Uses of standard costing and yield tests

Standard costing and yield tests provide a useful basis for determining selling prices of food and drink items, particularly when a standard gross profit percentage has been set by management.

They also provide a means of comparing purchasing options. For example, deciding whether it is more cost effective to purchase pre-portioned meats as opposed to wholesale cuts, prepared vegetables as opposed to unprepared vegetables. The costs of preparing the items would also be taken into account.

Where records are kept of the numbers of each type of dish sold, the cost of sales can be worked out from the standard costs:

151	Cheese Burgers	@ £0.57	=	86.07
432	Beef Burgers	@ £0.48	=	207.36
506	French fries	@ £0.17	=	86.02
				379.45

If this figure does not agree with the value of purchases during the period concerned (after allowing for opening and closing stock), there is evidently a control problem. (This technique is returned to in Part 2.)

GROSS PROFIT PERCENTAGE

In many food and beverage outlets, the gross profit percentage is the principal control mechanism.

Management decide what gross profit should be achieved on sales overall, for example 65%.

Prices are determined by calculating the standard cost, then adding the required gross profit:

Cheese Burger	£ p	%
Food cost	0.57	35
Gross profit	1.06	65
Selling price	1.63	100

Should gross profit in a particular trading period vary from the target 65%, there is a control problem.

SALES MIX

Sales mix has to be taken into account when gross profit margins vary from product to product. Say, in the example above, that a higher gross profit is sought on drinks:

Milk Shake	£ p	%
Food cost	0.28	25
Gross profit	0.84	75
Selling price	1.12	100

Then the overall gross profit will depend on the ratio of drink to food sales:

	Example 1		Example 2	
	£	%	£	%
Food sales	750	42	1155	64
Drink sales	1050	58	645	36
Total sales	1800	100	1800	100
Cost of sales	525	29	565	31
Gross profit	1275	71	1235	69

A similar situation can occur with accommodation sales in hotels. Say the tariff is £50 per person when two occupy a twin room, or £65 for single occupancy. How the results compare to budget will depend on the final ratio of double occupancy to single occupancy:

	Budget			Actual		
	No	%	£	No	%	£
Twin room occupancy	61	80		65	85	
@ £100	38	50	3800	29	38	2900
@ £65	23	30	1495	36	47	2340
Total revenue			5295			5240

ACTIVITY 12
Time guide: 5 minutes

If the manager in the hotel example we have just considered, decided to try and boost occupancy by offering a special weekend package aimed at couples, of £75 per room. Complete the simple calculation below to work out the overall effect on sales revenue, and comment on the figures.

	Budget			*Actual*		
	No	*%*	*£*	*No*	*%*	*£*
Twin room occupancy	*73*	*96*		*71*	*93*	
@ £100	*38*	*50*	*3800*	*23*	*30*	.....
@ £65	*23*	*30*	*1495*	*36*	*47*	.....
@ £75	*12*	*16*	*900*	*12*	*16*	.....
Total revenue			.....			.....

	Budget			Actual		
	No	%	£	No	%	£
Twin room occupancy	73	96		71	93	
@ £100	38	50	3800	23	30	2300
@ £65	23	30	1495	36	47	2340
@ £75	12	16	900	12	16	900
Total revenue			6195			5540

* Although not as good as budget, overall occupancy has improved from 85 to 93%.

* As might be expected single occupancy of twin rooms @ £65 has been unaffected.

* Although take-up of the special weekend rate is exactly on target, this has evidently been achieved at the expense of people paying the normal rate of £100, where occupancy has dropped from 50 to 30% against budget, and from 38 to 30% against comparable results before the special rate was introduced.

* The actual increase in overall revenue is £300, against the budgeted increase of £900.

* Providing the special weekend rate can attract further new business to the hotel, it would appear to be worthwhile continuing.

SALES CONTROL

In many situations the main control mechanism is provided by a comparison of:

* *the amount of money and credit taken in the same period* - based on till readings, cash books and so forth

with:

* *what has been sold in a particular period* - based on stock counts at the beginning and end of the period, and analysis of stock additions during the period; or, increasingly, with the use of sophisticated electronic point of sales (EPOS) equipment, on reports produced automatically for whatever period is required.

This is covered in detail in Section 2.2.

TOWARDS BETTER BUDGETS

We return again and again in this self-study unit to the likely causes of cost variances. When budgets are the control mechanism, there is an additional factor to consider: was the budget realistic? For you as a manager or supervisor it will certainly prove frustrating if you are criticised for failing to meet what you consider unreasonable targets. Should this happen, spend some time preparing your argument:

- what action you have taken to keep to budget, and the results this has had
- proposals for further action, and the likely outcome
- try and establish what assumptions were made in preparing the budget, for instance that inflation would be 5% when in fact it is nearer 8%
- what other external factors have affected sales and/or costs, such as a high level of redundancies among local companies
- change in purchasing policy which has increased costs
- other internal factors outside your control, such as emergency maintenance work requiring the closure of part of the facilities
- any factors which may have affected customer satisfaction, and therefore the level of return business
- what more reasonable (but still demanding) targets might be.

SOME MORE ACCOUNTING TERMS

Forecast Prediction or calculation in advance.

Budget A plan, quantified in monetary terms, prepared and approved prior to a defined period of time, showing for that period of time the income to be generated and/or costs to be incurred in order to attain a given objective.

Variance statement A summary of the operating results for a particular department, income or cost centre, showing each comparison to budget as a positive or negative variation.

Standard costing Calculation of how much it normally costs to make a certain product or provide a particular service.

Sales mix Ratio or percentage of sales of individual products and services (or groups of products and services) to overall sales.

Yield testing Exercise to calculate the average yield (for example, number of servings) after taking into account wastage during the preparation of a particular product.

EPOS Electronic point of sales equipment.

SOME CONTROL MEASURES

Gross profit % = $\frac{\text{Gross profit}}{\text{Sales}} \times 100$

Cost of sales % = $\frac{\text{Cost of sales}}{\text{Sales}} \times 100$

Employment cost % = $\frac{\text{Employment costs}}{\text{Sales}} \times 100$

Operating expenses % = $\frac{\text{Operating expenses}}{\text{Sales}} \times 100$

SUMMARY

- **Forecasts are a useful technique for planning resource requirements and form an essential step in drawing up budgets. They are not capable of 100% accuracy.**
- **Budgets provide a means of planning the business operation, deciding in advance what level of costs can be incurred against the likely income in order to achieve the required profit/contribution (which may be a negative one in the first stages of a new enterprise).**
- **Split into operating periods and different departments or cost centres, budgets are a useful means for monitoring results, allocating responsibility, controlling and evaluating the use of resources, and rectifying problem areas.**
- **However budgets alone are not sufficient for day-to-day control. Other procedures and systems such as standard costing, yield testing and sales control are necessary to keep costs in line.**
- **Managers need to develop their own procedures and systems to suit the characteristics of their business: there is no best system.**
- **To be effective, procedures and systems need the support of staff.**

Take a break before going on to the first section of Part 2, which looks at purchasing equipment and supplies.

SECTION 2.1

Identifying equipment and supply needs

After working through this section you will be better able to:

> state the various stages in the purchasing and stock control process

> list the factors which should be taken into account in deciding what quality, and what quantity to purchase

> implement and maintain efficient procedures to identify actual and potential purchasing requirements

> identify and select suitable suppliers (where appropriate).

Whatever the product - food, drink, linen, cleaning materials, cutlery and crockery, stamps and stationery for the porter's desk - the stages are similar:

1. Deciding what needs to be ordered: how much, and what quality. For more expensive items of equipment, and for many items in the larger businesses, this will involve drawing up quite detailed specifications.
2. Identifying sources of supply. In some cases, this will be specified by company policy.
3. Placing order with supplier.
4. Receiving, checking, recording and storing in-coming items.
5. Recording, checking and receiving out-going items: issues to different departments and people.
6. Calculating the value of stock usage over appropriate periods of time, to determine cost of sales.
7. Carrying out physical stocktakes from time to time, as a check that control systems are working accurately, as a protection against malpractices, and to provide an accurate valuation of stocks for balance sheet purposes.
8. Monitoring stock usage as a basis for more accurate purchasing.

The complexity of the purchasing and stock control system, the type and amounts of paperwork required, will depend on the size of your establishment, the number of people involved, and what information is required by you, your employers or head office. It should, however, meet certain basic requirements:

- it should cover every aspect of the control procedure
- stock levels should be sufficient to cope with demand, but not tie up more money than necessary in stocks, nor mean that items are kept beyond their use-by date
- theft and pilferage should be prevented
- wastages should be kept to the minimum
- variances from target should be highlighted
- health, safety and hygiene standards should never be put at risk.

In this section we will examine stages 1 and 2 in detail.

DECIDING WHAT TO PURCHASE

In deciding what to purchase, the aim is to reduce the element of 'hunch', or inspired guesswork, and to protect yourself from persuasive sales representatives.

Like the technique of forecasting, which we dealt with in the last section, experience has a large part to play. Where this is not personally available, you may have to rely on records of what has been purchased before, matching them against sales or other usage records for the same period, and checking carefully against sales forecasts.

Suppliers will be keen for you to buy more, and may tempt you with promotions and special offers. The danger - which good suppliers recognise - is that you end up with too much of the wrong item. This leads to storage problems, wastage through deterioration of the items, means cash is unnecessarily tied up, and can cause customer and staff dissatisfaction.

There is no scope for guesswork in large scale catering situations. In many hospitals, for example, patients' food orders are analysed by computer. The expected uptake of individual dishes, combined with data on the standard recipes used to produce them, leads to an automatic listing of the food items which will be required. Providing the computer is kept up to date as far as prices are concerned, the costs of the meal can be immediately calculated.

Where point of sales equipment records the quantity and identification of each item sold, this information will give a sound basis for making purchasing decisions.

Let's look at each of the issues in more detail.

Deciding quality

A basic principle might be to choose the best available quality each time. But, as your reaction to this statement almost certainly confirmed, this does not make sound business sense. What quality is appropriate depends on:

What your customers expect

* In a luxury hotel, guests will expect good quality sheets (but not necessarily the finest Egyptian or Irish linen).
* In a roadside, budget hotel, polyester-cotton sheets and duvet covers are acceptable, while a guesthouse might get away with brush nylon sheets.
* The Truckworld over-night stop-over hotels do not provide towels or soap in guest bedrooms. This is one of the innovations introduced by the company behind Truckworld. Market research established that lorry drivers prefer to travel with their own soap and towels.
* Single-ply paper napkins might be acceptable with a pub meal. However in a four-star hotel, guests at breakfast would expect generous-sized three-ply napkins, and at dinner they would expect linen napkins.

What use the item is being put to

* A misshapen passion fruit is perfectly acceptable when the contents are going to be scooped out to add to a fruit salad.
* It may not be necessary to purchase lamb's kidneys for a steak and kidney pie.
* The quality of the oil in a deep fat frier will not only affect the flavour of the food, but how long the oil lasts before it has to be replaced. Furthermore, if the saturated fat content is high, and the fat is easily absorbed by the food (as it tends to be the case with cheaper products) your customers' health will be adversely affected.
* Pre-prepared and convenience foods reduce the need to skilled staff in the kitchen, and cut down preparation time.
* Use of some convenience foods is dependent on having the appropriate (and sometimes expensive) equipment: combination ovens with steam injection for vacuum packed foods, for example. An advantage of some pre-prepared items is that they do away with the need for equipment: potato peeling machines, chip cutters, and dough breaks for example.
* Cheap dish-water chemicals may contain uninhibited caustic-based detergents, which can eat away the machine, causing major maintenance costs.
* If house wine is sold by the carafe, the customers will expect a drinkable product that is good value for their money. They do not necessarily expect a wine from France, Italy or Spain (unless perhaps it is a restaurant claiming to be characteristic of that country). Indeed, enjoying the wine, and asking where it has come from, customers might be surprised to find it is from Chile - having not had occasion to try the wines of that country before.

What your business can afford

- As a supervisor, the budget or department operating statement will usually be your guide on what the business has planned to spend.
- This control might be in terms of a target gross profit, so that you are responsible for achieving a gross profit on food of 60%.
- Or the control might be in overall terms, so that in the current year, you have £3500 available to buy replacement linen and cutlery for the restaurant.
- In difficult times, cash flow will be critical for the proprietor of a small business. A decision might have been made to buy the best quality silver plate cutlery, because it will contribute significantly to the dining experience of customers. On the other hand, if the money (cash or credit) is not available, other options will have to be considered.

ACTIVITY 1
Time guide: 15 minutes

Ignoring, for the time being, the additional factors which have to be taken into account when purchasing equipment, use the space below to note some examples from your own experience, of how purchasing decisions are influenced by:

What your customers expect

What use the item is being put to

What your business can afford

For equipment, two additional factors need to be taken into account.

What the life expectancy is

* Another reason for deciding to buy the best quality silver plate cutlery is that the plate has a longer life. This is reflected in the length of the manufacturer's guarantee. It means that the cutlery will look good for longer, and you won't have to consider whether it should be replated for several years.
* It is not likely to be worthwhile replating cutlery which is not of the best quality - so outright replacement would be necessary under this option.
* Keeping pace with changing customer tastes, might mean taking the restaurant 'down market' in a number of years, when silver plate cutlery would no longer be appropriate.
* Generally the better the quality of linen (towels, sheets, pillowcases, tablecloths, napkins and so forth), the longer it will last.
* Good quality detergents and rinse-aids will last for more cycles in a glass or dish washer, as well as being more effective at the job.

What running costs are likely to be incurred

* Paper tablecloths are discarded as soon as they are soiled. Linen tablecloths have to be laundered.
* Long-life, low energy light bulbs use less electricity and last longer than the standard bulbs.
* Vacuum cleaners used in the housekeeping department are subjected to heavy wear. Some machines require less maintenance than others because of their better design and construction, and the manufacturer's superior quality control.

ACTIVITY 2
Time guide: 15 minutes

Identify two items which represent a significant proportion of the purchasing budget in your workplace, and which you feel would benefit from a review of the quality that it is considered necessary to purchase. In the space below describe the additional factors which should be taken into account in determining quality for each of the items, and the conclusion you think this will lead to.

Did you mention the introduction of new quality grading schemes by food manufacturers, such as the Cheese Mark, and the Kingdom Marketing Scheme (for apple growers)?

If your company is registered under British Standards 5750, or planning to do so, then you will give preference to suppliers which have BS5750.

In some circumstances, one issue will assume over-riding importance in determining quality. For example, customers in an expensive restaurant will expect that raspberries on the menu means the best available. Nevertheless, care should be taken not to ignore the other issues. Is it necessary to have raspberries on the menu, when because of poor weather conditions in the UK, the only ones available at the market have been airfreighted from North America and consequently are four or five times the usual price for raspberries at that time of year?

Deciding quantity

Ordering small quantities can reduce the opportunity and value of discounts. On the other hand, large quantities may not be as economical as they first appear. If customer purchasing patterns vary unexpectedly, you may be left with slow moving stock that ties up storage space for a long period. And any product with a specified shelf life will have to be discarded if it is not consumed before the date shown.

ACTIVITY 3
Time guide: 15 minutes

List below as many factors as you can think of which should be taken into account in deciding what quantity of an item to purchase.

This is what the HCTC/Booker Fitch Food Services *Guide to Effective Purchasing* says on the subject.

How much to purchase depends on:

- storage space available. This can be absolutely crucial for items that have to be kept chilled or frozen
- any minimum quantity requirements laid down by supplier. This may be influenced by the packaging: 100 disposable dish cloths, a case of 12 bottles of wine, for example. What units you purchase frozen vegetables in, the packet sizes you use for instant coffee, washing powder, and so forth, should match your usage of the product, be convenient to store, and easy to count for stocktaking
- patterns of use. Your stock control system will help identify these. With a cleaning agent it may be five litres per month during the summer when the hotel is busy, dropping to one litre per month in the off-season
- predicted future changes to the sales pattern. For example, the introduction and heavy marketing of a special weekend break may be expected to increase room occupancy and the number of meals which will be served in the restaurant
- changes to the sales pattern resulting from price increases. Significant increases are likely to depress sales of all the affected products but may increase sales of expensive products and those which have not increased in price
- anticipated price movements. For instance rumours about the Chancellor's budget intentions may lead you to buy more spirits to beat the increase in duty. Seasonal price changes should be taken into account when purchasing fresh products in particular. Strawberries for example, are generally very expensive at the start of the season and can be almost unobtainable during Wimbledon.

And for each group of items you should also consider:

- the delivery intervals. For instance, perishables may be required daily; cask conditioned beer weekly; spirits, paper goods and cleaning material monthly; and certain wines monthly
- delay between ordering and delivery. For personalised stationery, for example, this may be several weeks, for fresh vegetables and fruit a few hours
- any allowance which is required for emergencies. In a luxury hotel, for example, it is not usually acceptable for menu items to run out, so some over-ordering is inevitable (and taken into account in the pricing policy)
- when items are to be prepared or diluted, the yield or number of portions produced. For example, a recipe for beef goulash based on 200 g stewing meat per person will only produce an adequate quantity if the meat is lean. The number of peach halves in an A2.5 sized tin will determine how many peach melbas can be produced - and the yield is likely to vary according to the canning firm.

Some large businesses use an economic order quantity system. This method takes account of:

- costs of ordering. This will include the time of the people who decide and place the order, deal with the delivery and with the paperwork: order forms, delivery notes, invoices, statements and so forth
- costs of storage. Storage space can be very expensive
- costs of storage equipment: initial purchase price, running costs and depreciation. This includes refrigerators, cold rooms, freezers and chillers
- insurance costs. Both equipment and stocks are usually insured against damage, breakdown and theft
- earning power of funds tied up in stock. These could earn interest in a bank or building society. Say an establishment has an average of £1500 worth of stock throughout the year. if the same sum was invested in an account earning 12%, the interest payments would total £180.

For more details of how to work out economic order quantities, see *Guide to Effective Purchasing*, HCTC 1992.

Stating your needs

Getting exactly what you want from suppliers, means being clear yourself what you want, and then communicating that information in a precise, unambiguous way.

Purchase specifications are a formal way of doing this. If you are dealing with a lot of commodities, the task of preparing a purchase specification for each one of them will be very time consuming. But having established your set of specifications, alterations are straightforward.

Whether or not purchase specifications are appropriate in your operation, you should still aim to provide suppliers with the basic information they cover. Depending on the product, that will include:

1. Name of commodity, and if necessary a concise description.
2. Intended use.
3. Purchasing unit. This may be size, weight, volume, or a well understood description - for example magnum (150 cl of wine, equivalent to two standard bottles).
4. Grade - where one has been established by government, European Community regulations, the industry concerned, consumer bodies or marketing organisations.
5. Origin - the country of origin helps to indicate quality and price. You or your customers may object to foods packed in certain countries with an unacceptable political regime.
6. Quality (if not already covered by the statement on acceptable grade). Descriptions should be clear, simple, realistic and focus on easily observable, testable features. With some products it will be necessary to specify the variety by name: eating apples for example, or potatoes you wish to bake in their jackets.
7. Preparation required. This is likely to apply to meat, fish, vegetables and perhaps fruit.
8. When and where you require the items.

A key part of this communication process is of course clarifying and agreeing the price you will pay. What you should not have to do, is to repeat the basic rules or principles of effective purchasing. It should always be understood, for example, that broken stock on delivery, misleading or inadequately labelled products will be returned.

The HCTC/Booker Fitch Food Services *Guide to Effective Purchasing*, from which much of the material in this section has been extracted, also covers negotiating, contracts, and evaluating purchasing. Purchasing points are given for meat and poultry, game and offal, fish, fruit and vegetables, dairy produce and eggs, bakery goods, canned goods, seasonings, oils and fats, chilled and frozen foods, alcoholic and non-alcoholic beverages, paper goods and cleaning materials.

ACTIVITY 4
Time guide: 45 minutes

Draft a purchase specification for one of the products that you looked at earlier in this section (in the exercise on quality).

You should show your draft purchase specification to your manager, and to the supplier(s) concerned to get their comments. If practical, send the (amended) purchase specification to one or two other potential suppliers, and ask them to quote.

The purchase specification below (reproduced from *Guide to Effective Purchasing*) is that used by Metropole Hotels.

Blanket specification

BLENDS

Two alternative blends are required:

a) 70% pure new wool and 30% nylon
b) 100% pure new wool

BRITISH STANDARD

The blankets should conform to BS3121 - naturally flame resistant.

FINISH OF ENDS

Bound one end with nylon taffeta ribbon, double stitched. Wool whipped other end.

Alternatively
Bound both ends with nylon taffeta ribbon double stitched.

CLEANING

All products submitted must be machine washable.

SIZES, WEIGHTS AND CONSTRUCTIONS

Cms	Ins	Gms
178 x 229	70" x 90"	1500
230 x 250	90" x 98"	2050

Warp ends	Weft ends	Mattress pads
16 per inch	21 per inch	90 x 190 cms
16 per inch	21 per inch	150 x 200 cms

IDENTIFYING AND SELECTING SUPPLIERS

The objective in selecting your suppliers is to obtain the quality, service and price you seek, for the goods you know you want, at the greatest convenience to yourself.

This is some of the advice offered by various caterers in **Guide to Effective Purchasing**:

When selecting suppliers you must make sure that they can:

- supply a consistently good quality
- deliver at the frequency you require, at the right time and place. You are paying suppliers to provide a service, therefore they should meet your needs
- supply at a price which is competitive and cost effective for your business. The cost must be the best for the required quality - not necessarily the cheapest.

ROBERT RYAN, EXECUTIVE CHEF AT THE CAFE CAFE BAR BRASSERIE, HARROW-ON-THE-HILL

- agree any terms and conditions for delivery times and places, for instance that the cost of delivery to your premises is included in the quote
- ensure that payment arrangements are clearly established. There should be no hidden extras, such as being charged interest on late payments, without your agreement
- let the supplier make an offer. Consider the bottom line figure, £1.50 net is better than £2 less 2% discount
- agree on split case rates. One bottle of Apricot brandy from a case of 12 might have a large premium charge added.

DOUGLAS ORAM, GROUP PURCHASING MANAGER, METROPOLE HOTELS

- limit the number of suppliers, too many can increase costs
- establish loyalty from and with your suppliers, but occasionally tender for certain goods to get the 'feel of the market'.

BRIAN WATTS, MANAGING DIRECTOR, BE SERVICES

- test the products of different companies to find out the yield, flavour and standard of each product, and to compare prices
- examine the hygiene standards of the (food and drink) supplier generally and in particular the preparation, storage and transporting of perishable food which must be temperature controlled
- question your suppliers' awareness of the food safety regulations
- if using a local supplier, compare the 'front of shop' facilities and standards of staff, with the 'back of shop' areas where preparations are carried out
- ensure that ordering methods are easy to carry out and the complaints system is effective.

PHILLIP RUDDOCK, MANAGER, SITE SERVICES, EALING HEALTH AUTHORITY

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ACTIVITY 5
Time guide: 25 minutes

Assume that for some reason you have to select a suitable supplier for a particular commodity or range of commodities - it might be that your existing supplier has let you down, or that your head office has relaxed its purchasing policy so that you choose your own suppliers for particular items, or that you are introducing a new range of products. Briefly note below: (a) what you would take into account; (b) what options are open to you - for example, to go to a cash and carry; and (c) the advantages and disadvantages of each of the options you have identified.

In choosing a supplier, you would be looking for:

- competitive prices for the quality required
- goods are of the correct size, weight and quality
- frequency of delivery suits your requirements
- minimum and maximum order quantities suit your storage space and cash flow
- payment terms are acceptable to your company or organisation.

There are basically three groups of potential supplier.

National distributors and suppliers In many establishments, the majority of commodities are purchased through suppliers nominated by head office. Quality standards will generally have been specified, and prices and delivery terms negotiated, so that all the manager or supervisor has to do is specify the quantity. The suppliers may originally have been selected on a tender basis, and have been awarded a contract for a number of years. In other cases, the supplier is actually a subsidiary company. Among the advantages of this arrangement are:

- orders can be placed quickly - generally over the telephone, or in person with the sales representative. With some companies, the sales rep will contact you at prearranged intervals to get your order
- extensive choice
- quality backed by reputation
- competitive prices
- goods delivered
- credit.

However, you may be required to order more than you need of some commodities. This increases your storage costs, particularly for frozen foods and may lead to waste.

Cash and carry outlets Among the advantages of cash and carry outlets are their:

- competitive prices
- accessibility - visits can be made frequently, at a time to suit yourself
- wide and varied range of products, all on display to ease your selection
- lack of restrictions - most products can be purchased in whatever quantity you need, no matter how small.

However, you or a member of your staff, will have to spend time on the journey to the cash and carry, making the selection, loading and unloading the vehicle. Generally, purchases must be paid for at the time they are made, the range of goods may be restricted (and often to food and drink items), and the service may be less personal service.

Local shops and markets Most publicans and many caterers will in some instances also buy from markets and local shops. Local traders will offer a personal service, be keen to build up a good reputation, often be prepared to negotiate on the spot over prices, and may offer a range of quality to suit your needs. However, they may not be able to provide a convenient delivery service, and prices may be higher than you get elsewhere.

PLACING THE ORDER

All orders - even those made initially by telephone - should be recorded in some way, and a copy:

- posted, faxed or given in person to the supplier
- given to the person(s) responsible for receiving the goods
- retained by the person(s) making the order.

This is because written orders:

- provide an exact record of what was ordered
- provide a means of checking prices, quantities, size, quality and so forth with delivery notes and/or invoices
- avoid confusion over what has been ordered, by whom and when the delivery is due
- ensure that only authorised purchases are paid for
- provide clear evidence of the legal contract which is made when the supplier agrees to supply the order at the price, and on the terms quoted and agreed by you.

SUMMARY

* Effective control starts with the purchasing decisions: deciding what you need, both to satisfy your customers and to meet your business aims. It involves controlling the ordering, receipt, storage and issue of goods. It means reconciling usage with sales. It depends on the on-going evaluation of purchasing effectiveness, so that future decisions can be better informed.

* What quality you purchase should be based on the expectations of your customers, what use the item is being put to, what your business can afford; and, for equipment, its life expectancy and running costs.

* Quality marks are being established for an increasing number of products. Suppliers accredited under BS5750 have shown they are following rigorous quality control procedures laid down by the British Standards Institute.

* What quantity you purchase depends on availability of storage space, pattern of usage, terms of supply such as price, minimum delivery quantity, and internal considerations such as cost of ordering and storage costs.

* Your requirements should be communicated to suppliers precisely and without ambiguity. However, to over-specify may incur unnecessary extra costs.

* The objective in selecting your suppliers is to obtain the quality, service and price you seek for the goods you want, at the greatest convenience to yourself.

* A written record must be kept of all orders, to reduce the risk of misunderstandings by suppliers and colleagues, and to provide a reliable basis for checking the subsequent stages of delivery and payment.

SECTION 2.2

Controlling the receipt, storage and issue of resources

After working through this section you will be better able to:

- monitor and control the receipt of goods
- control the storage of stock/goods
- control the issue of stock/goods
- implement a physical stocktake within your area of responsibility
- identify what factors might cause variances to gross profit targets.

With enormous pressures on their time and resources, it's not surprising that many caterers fail to check deliveries. They hope - and fortunately they are usually right - that the supplier and delivery person are completely honest. They rely on the supplier's goodwill to listen to, and act on complaints made a long time after the delivery has taken place. In this situation, the caterer will be quick to accept that the proper time to draw attention to the shortfall in delivery, or the failure to provide the correct quality was at the time the delivery was made. New resolutions will be made - but how long will they last?

ACTIVITY 1
Time guide: 10 minutes

Assume you are asked to give a short talk to a group of trainees about the importance of checking deliveries carefully. Describe briefly below some of the occasions you have been grateful that you checked a delivery properly, or regretted later that you did not do so. Ask among your colleagues to get other examples.

ACTIVITY 2
Time guide: 15 minutes

Now describe the procedures used in your workplace for receiving and checking deliveries.

These are some of the points you may have mentioned, depending on your area of work.

- Preparing any items which are to be returned in advance of the delivery: for example, faulty goods, returnable containers.
- Making sure an authorised member of staff is present to accept all deliveries.
- Count and/or weigh all items. Check all brands. Check all cartons, crates and boxes are full. Check that packaging and items are not damaged.
- Check temperatures of chilled and frozen food items.
- Agree delivery and returns with delivery person before any goods are removed to their storage place.
- Check delivery note against order copy, and sign supplier's copy of delivery note as correct.
- Make sure discrepancies are recorded on the delivery note, and also on the order copy before signing.
- Check date codes and return items that have passed, or are too close to their use-by date.
- After delivery, place goods in the appropriate storage area as quickly as possible. Keep cleaning materials apart from food and drink items. Keep cooked foods apart from uncooked foods.
- Place new stock behind old stock, so that older stock is used first.
- Bring stock records up-to-date.

Checking deliveries is a responsible and important task. A well thought through, step-by-step procedure will help you and your staff get it right, every time.

ACTIVITY 3

Time guide: 20 minutes

Consider what information should be available to the those responsible for checking deliveries in your workplace. Study the detailed checklist which follows for canned goods, then on the page opposite prepare a similar checklist for two of the products that you purchase regularly.

Canned foods

Damage to a case may not necessarily mean damage to tins, and steps should be taken to identify the extent of the problem before a decision to reject is made.
Reject any individual tins which:

1. *have any visible defect on the seam construction*
2. *are blown or leaking - blown cans are those with distended end(s) that cannot be pushed back to their original shape*
3. *have suffered damage which results in buckling with sharp edges*
4. *have damaged easy open features*
5. *exhibit any degree of pitting from rust - surface or powder rust which can be removed by rubbing with a cloth, and which has not resulted in pitting is a cosmetic defect and no cause for reject*
6. *are contaminated with bird/vermin droppings, insect infestation or extraneous food matter*
7. *are grossly contaminated by dust or other extraneous matter*
8. *have a damaged label, so that it is no longer clearly readable.*

ACTIVITY 3 ctd

DELIVERY CHECKLIST
Product:

DELIVERY CHECKLIST
Product:

Credit: *The notes on identifying faulty cans are extracted from a working document of the West Midlands Regional Health Authority, made available to HCTC for use in* **Guide to Effective Purchasing** *by Stratford-upon-Avon Foods Limited, a BS5750 registered firm.*

ACTIVITY 4

Time guide: 15 minutes

Now compare your procedure for the rejection or return of goods with the following, and make notes on how you will improve your own procedure.

CANNED GOODS NOT ACCEPTED AT TIME OF DELIVERY

Where it is necessary for goods supplied under the national contract for canned goods to be rejected, the following actions must be taken:

1. The supplier/distributor must be notified by phone, and confirmed in writing or by fax.
2. If rejection is confirmed, the delivery note must be marked with the reason for rejection.
3. Full details of the decision to reject goods must also be communicated in writing to the supplier as soon as possible, and always within 14 working days. The following details to be advised:
    a) order number
    b) delivery note number
    c) date of delivery
    d) name and telephone number of contact
    e) can/batch code
    f) reason for rejection
    g) quantity
    h) product identity
4. Damage to cans subsequently discovered within a reasonable time (28 days) after delivery should be reported immediately, giving full details as described in 3 above.
5. Single cans may be isolated and returned to the supplier/distributor.

Credit: This procedure, from the West Midlands Regional Health Authority, was kindly made available to HCTC by Stratford-upon-Avon Foods Limited, a BS5750 registered firm.

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STORAGE

There are some general guidelines which apply to the storage of any type of commodity, including small items of equipment such as cutlery and crockery:

1. There must be adequate storage. This means free from health and safety hazards including contamination from other products, spread of infection by vermin and insects. It means appropriate conditions of temperature and humidity. And it means keeping with the law.
2. There must be secure storage. This means protection against break-ins by outsiders, and protection from improper or dishonest use by employees, contractors, customers and others who have good reason to be on the premises but not necessarily in storage areas! Strict control over access is essential, and this means strict control over keys.
3. Stock levels should be appropriate to the amount of storage space available, pattern of use, delivery frequency, shelf-life of product, and purchasing policy of the establishment (see previous section).

ACTIVITY 5

Time guide: 15 minutes

List below the Acts and Regulations which you should take into account in relation to storage of the various items used in your workplace. For each Act/Regulation briefly state the main ways in which it applies to your situation.

The Health and Safety at Work Act 1974

- Lays down a general responsibility on employers to provide arrangements for the safe use, handling, storage and transport of articles and substances.
- Employees also have a responsibility under the Act to take care of the health and safety of themselves and other persons who may be affected by their work, and to refrain from intentionally or recklessly interfering with anything required by law and provided in the interests of safety.

The Food Safety Act 1990

- Places responsibility for food safety on each link within the food production chain.
- Specifies in much wider terms the food safety requirements. 'Food' means almost anything that is eaten, drunk or chewed, and is assumed to be for human consumption until the opposite is proved. Food fails to comply with the food safety requirements if it has been made injurious to health, or is unfit for human consumption, or is so contaminated that it would be unreasonable to expect it to be eaten or drunk in that state.

The Food Hygiene (Amendment) Regulations 1990

- Lay down strict (and complex) temperature controls for certain foods - in place of that particular aspect of the Food Hygiene (General) Regulations 1970.
- High risk foods must be stored at not more than 8 degrees Celsius (5 degrees Celsius from 1 April 1993), or, if cooked and waiting to be served hot, not less than 63 degrees Celsius. Items covered include soft cheeses ripened by the action of moulds or other microorganisms, various cooked products, smoked or cured meat which has been cut or sliced after smoking, desserts made with milk or milk substitute, vegetable salads (including those containing fruit).
- High risk products which are sold within a specified time of production are exempt, such as quiches and cream cakes (2 hours), sandwiches (4 hours), cooked sausage rolls (same day), uncooked baked egg and milk pastry products (24 hours), cooked pies and pasties, provided they have nothing added to them after baking (within 2 days).
- The food temperature controls do not apply, for example to bread, biscuits, cakes, dry, dehydrated or canned foods, uncooked bacon and ham.

The Food Hygiene (General) Regulations 1970

- Ensure that food is protected from contamination at all stages from delivery through to consumption.
- Raw and cooked food must be kept separate.
- Open food must be kept covered or effectively screened during delivery and storage.
- Food handlers must use hygienic work methods, and observe personal hygiene rules.

Control of Substances Hazardous to Health Regulations 1988

- Require employers to carry out an assessment of hazardous substances used in their establishment, including their storage.
- Require employers to provide safe conditions - and to monitor these - for the use of hazardous substances including adequate ventilation, protective tools and clothing.

The Fire Precautions Act 1971

- Applies to hotels, motels, and other residential establishments (except the smallest ones), protecting the occupants against the dangers of fire.
- Requires such premises to have a fire certificate. Issued by the local fire authority, this will cover the provision of fire warning systems, fire fighting equipment, escape routes and regular training for staff in fire procedures.

STOCK RECORDS

Stock control systems vary considerably in their complexity and in the amount of information they produce. The general aims include:

- *providing an at-a-glance record of what is in stock.* This may be a card attached to the shelf or bin where the item is stored, or a stock record book kept in a central place, or a computer which can be accessed from several terminals
- *summarising the relevant details of the product concerned.* Typically its name, the unit or size in which it is purchased, for instance A2 for tins. Some establishments also keep records of the supplier(s) of each product and the unit cost - this helps when ordering (who to order from the likely price) and when stocktaking (easier to establish the value of the stocks)
- *recording receipts and issues.* In addition to the date and the quantity received or issued, details may also be kept of the delivery or invoice number for incoming goods and the requisition number for outgoing goods (so the transaction can be checked if necessary)
- *giving information which will help the purchasing function.* When minimum and maximum stock levels are established, the person responsible for ordering knows when to order (when, or just before the minimum quantity is reached) and how much to order (to take the stock up to the maximum level). In addition, a re-order quantity is sometimes given and this will take account of the supplier's standard order quantities as well as the stock usage between the time of placing the order and receipt of the new stock
- *offering security.* At any time management can check that the balance on the stock record agrees with an actual count of what is on the shelves. This discourages theft (reducing costs) and encourages staff to maintain the systems properly (so records of stock usage are reliable and if, for example, a discrepancy arises between items sold and items consumed, the field of investigation can be narrowed to the preparation and service stages). In an organisation where several people deal with stock records, an added precaution is for everyone to initial or identify by a personal code the transactions that have concerned them.

ISSUING OF STORES

All stock movements must be recorded when they occur, or as soon as possible after the event. The requisition or internal order form is the usual system for doing this.

Any subsequent adjustments to the requisition must be recorded, for example because a different quantity or replacement item had to be issued.

ACTIVITY 6
Time guide: 10 minutes

In the space below, draw up a store requisition form which would be suitable for a medium-sized independent hotel. (Use a pencil, unless you are sure you can get the format right first time.)

Did your form give space for:

- name of the department/person ordering
- date the order made
- requisition number
- name or description of items required
- unit in which the item is to be supplied
- number required
- signature of person authorising the requisition
- signature of person receiving the items
- date items issued?

ACTIVITY 7

Time guide: 10 minutes

Revise your form as necessary, then complete it to cover the issue of the following items to the floor housekeeper, on the date of your choice:

10 x 6	*Packs soft tissue toilet rolls*
25	*Boxes face tissues*
2 x 100	*Guest soap*
1 x 50	*Guest shampoo*
2 x 50	*Guest bath foam*
1	*Ream A4 letterhead*
1	*Ream A5 letterhead*
1 x 500	*DL envelopes*
500	*Postcards*
3 x ½	*litres alkali detergent*

STOCKTAKING

Regular stocktaking is essential in order to compare the amount of stock used in a given period with the sales revenue for the same period. And having determined the actual cost of sales, you can calculate the gross profit margin you are achieving and compare it with budgets.

It is also a deterrent. When those responsible for security of stock realise they are checked on a regular basis, and on a spot-check basis from time to time, they know there is less chance of getting away with dishonest practices.

You will also be able to review the rate of stock turnover for individual items.

Pubs often employ professional stocktakers to count and value the stock on a regular basis. This frees stocktaking from the day-to-day crises which might affect the accuracy of the work if the licensee was trying to cope. Discrepancies can be fully checked out. Results are available quickly, so remedial action can be taken promptly.

ACTIVITY 8
Time guide: 10 minutes

A regular stocktaking in your department is to take place tomorrow. Make a list below of what needs to be checked to ensure the stocktaking goes smoothly.

In addition to the specific procedures for your department - for example, taking bottles down from optic stands, general points include:

- all areas clean and tidy
- like items grouped together as far as possible
- all cases, except the top ones, full
- particular brands grouped together, for example all Rothmans cigarettes
- where possible, items lined up in rows or piles of a convenient number
- where possible, items organised in the same order as they appear on the (pre-printed) stocksheet.

Once all items have been counted, the total cost of each item is calculated and then the grand total of stock in hand, or closing stock. The cost price excludes VAT.

Item	*Unit*	*Unit cost*	*Amount*	*Total cost*
Whisky	Bottle	£7.70	3 2/10	£24.64
Double sheets	Sheet	£14.50	315	£4567.50
Castor sugar	Kilo	£23.00	25.75	£592.25
Tomatoes	Kilo	£2.85	3.5	£9.98
A4 letterhead	Ream	£15.75	4.5	£70.88

The next step is to calculate how much stock has been consumed during the period under review. The formula is:

Opening stock + Purchases - Closing stock = Stock sold or consumed

All figures must relate to a particular period. Thus:

OPENING STOCK at 1st January

+ PURCHASES made during the month of January

- CLOSING STOCK at 31st January

= STOCK SOLD OR CONSUMED during January

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ACTIVITY 9
Time guide: 10 minutes

The porters at the Crown Hotel are responsible for selling sundry confectionery and toiletries. During the last four weeks, sales came to £64.00. From the stocktake results for the beginning and end of the period, stock receipts (obtained by analysing the requisitions), calculate: (a) what items have been consumer during the period, and (b) their sales value; then, (c) comment briefly on the results.

	Opening stock	*Receipts*	*Closing stock*	*Stock sold*	*Selling price*	*Sales value*
Chocolate bar	*25*	*124*	*20*	*129*	*0.17*	*21.93*
Toothbrush	*32*	-	*15*	..	*0.65*	.....
Razor blades	*12*	*60*	*31*	..	*0.50*	.....
Postcards	*43*	*85*	*41*	..	*0.20*	.....
TOTAL SALES VALUE						

	Opening stock	Receipts	Closing stock	Stock sold	Selling price	Sales value
Chocolate bar	25	124	20	129	0.17	21.93
Toothbrush	32	-	15	17	0.65	11.05
Razor blades	12	60	31	41	0.50	20.50
Postcards	43	85	41	87	0.20	17.40
TOTAL SALES VALUE						70.88

There is a discrepancy between the cash takings for the month and the sales value of the stock sold of £6.88. This is a fairly substantial sum compared to the overall sales value. There could be a number of reasons, such as:

- stock going missing because of inadequate security
- the porters are sometimes not charging guests for items
- stock has become damaged - postcards through being handled by guests - and this fact has not been recorded properly
- when stock has been requisitioned, but was not available for some reason, the requisition was not changed to reflect this - consequently more stock appears to have been issued than was actually the case
- an error has been made on the stocktake, or in working out the stock issues.

As you will recall from Part 1 of this self-study unit, the gross profit percentage for the department or business is also worked out from information on purchases, opening and closing stock.

ACTIVITY 10

Time guide: 15 minutes

Complete the following calculation to find out the gross profit percentage on liquor sales at the Fox and Hounds for the month of September.

	£	£
Bar sales (ex VAT)		*2600*
Value of stock 1st Sep	*2264*	
Purchases during month	*1080*	
Sub-total	....	
Value of stock 30th Sep	*2132*	
Cost of sales		....
Gross profit		....
Gross profit percentage		....%

	£	£
Bar sales (ex VAT)		2600
Value of stock 1st Sep	2264	
Purchases during month	1080	
Sub-total	3344	
Value of stock 30th Sep	2132	
Cost of sales		1212
Gross profit	1388	
Gross profit percentage		$\frac{1388}{2600} \times 100 = 53\%$

ACTIVITY 11
Time guide: 15 minutes

If the targeted gross profit percentage at the Fox and Hounds was 60%, list below what factors might have caused the shortfall. For the sake of this exercise concentrate on aspects to do with purchasing and stock control.

Employment costs

The examples of standard costing we have considered so far, have looked only at the direct materials costs - the ingredients, in the case of the beefburger.

In a restaurant, it is not generally practical, nor particularly useful to work out how much it costs to serve each customer. But in an accommodation establishment, the direct employment costs of servicing a unit of accommodation - bedroom, suite, hospital ward, holiday centre chalet or villa, or whatever - are substantial, and fairly straightforward to calculate. You need to know:

* which members of staff are involved in servicing the unit of accommodation: room attendant, linen room porter, floor housekeeper, head housekeeper and so forth
* what the hourly employment costs are for each of these members of staff
* on average, how long (in multiples/fractions of an hour) each person spends servicing the room (or supervising that the work is done effectively).

For example, for a family villa in a holiday centre:

Hours	*Member of staff*	*Hourly employment cost*	*Total cost*
1.25	Room attendant	3.65	4.56
0.15	Linen room porter	3.87	0.58
0.10	Supervisor	12.95	1.29
			6.43

YIELD TESTING

If the beef burgers referred to earlier were made on the premises, from low-cost joints of beef, then other complications are introduced into the costing:

- the price per kilo or pound of the original joint is known, but a certain amount will not be used in preparing the mince: fat and gristle which will have to be discarded, and bones, which in some catering operations can be used for stock, in others will have to be discarded
- while one 12 kilo joint might produce 9 kilos of mince, not all joints come in from the butcher at 12 kilos
- in spite of a detailed purchase specification, the yield of usable meat varies slightly from one joint to another.

The technique used to get round this situation is called *yield testing*.

1. Sufficient numbers of the item are prepared - following standard procedures - to get a reliable average result. (With food items, preparation will include cooking.)
2. Records are kept of the initial weight, volume or unit. For example: kilos of fresh carrots; litres of cleaning fluid; numbers of melons.
3. Records are also kept of the final weight, volume or unit - that is, when the item is ready to be served, or sold, or used. For example: 75 g portions of diced carrot; number of bathrooms cleaned; 100 g portions of melon balls.
4. The yield is calculated for each of the tests. For example: Day 1, Joseph produces 30 portions of carrots; Day 2, Eileen produces 28 portions; Day 3, Joseph produces 34 portions.
5. The average yield is calculated. For example:

$$\frac{30 + 28 + 34}{3} = 31 \text{ portions (rounded up from 30.66)}$$

Another example

Three legs of lamb were selected at random from the day's delivery and weighed before and after preparation.

YIELD TEST: *Diced leg of lamb*

DATE: *14 March 1991*

CARRIED OUT BY: *K Patel*

COMMENTS: *3 legs selected at random*

DETAILS	WEIGHT kg	%	COST per kg	TOTAL COST
Original weight	*6.90*	*100*	*£2.90*	*£20.01*
Bones, gristle, fat	*1.10*	*16*		
Diced meat	*5.80*	*84*	*£3.45*	*£20.01*

ACTIVITY 11
Time guide: 15 minutes

In the leg of lamb example, it has been assumed that the bones, gristle, and fat were discarded. Try the following calculation, which involves putting the bones to good use.

A wholesale cut of beef weighing 17 kg is purchased at £2.28 per kg. After boning and trimming, 10 kg of steak meat, 3 kg of stewing meat and 4 kg of bones were left. Bones are to be valued at £0.10 per kg, and stewing meat at £2.80 per kg. Work out below what cost per kilo should be given to the steak meat.

Cost of wholesale cut	17 x 2.28 = £38.76
Value of bones	4 x 0.10 = £0.40
Value of stewing beef	3 x 2.80 = £8.40
Value of steak meat	38.76 - (8.40 + 0.40) = £29.96
Cost per kg of steak meat	$\frac{£29.96}{10}$ = £3.00 per kg

A similar technique can be used for working out:

- the yield of melon balls from melons
- sliced salmon from a whole side
- the number of bathrooms which can be serviced with a container of cleaning liquid

and so forth. It is simply a method of cost allocation.

Uses of standard costing and yield tests

Standard costing and yield tests provide a useful basis for determining selling prices of food and drink items, particularly when a standard gross profit percentage has been set by management.

They also provide a means of comparing purchasing options. For example, deciding whether it is more cost effective to purchase pre-portioned meats as opposed to wholesale cuts, prepared vegetables as opposed to unprepared vegetables. The costs of preparing the items would also be taken into account.

Where records are kept of the numbers of each type of dish sold, the cost of sales can be worked out from the standard costs:

151	Cheese Burgers	@ £0.57	=	86.07
432	Beef Burgers	@ £0.48	=	207.36
506	French fries	@ £0.17	=	86.02
				379.45

If this figure does not agree with the value of purchases during the period concerned (after allowing for opening and closing stock), there is evidently a control problem. (This technique is returned to in Part 2.)

ORDERING

- prices not checked before orders placed
- prices have increased
- over-ordering, leading to wastage

RECEIVING

- goods not checked adequately
- delivery notes not checked against orders/invoices
- incorrect deliveries not followed up
- goods left lying about before being placed under lock and key
- empties/faulty goods not recorded as returned
- theft

ISSUING AND STORAGE

- issues not recorded
- stock issued without a proper requisition
- stores left unlocked
- goods allowed to deteriorate or pass use-by date
- errors in stocktaking
- accidents/wastage not recorded.

You might also have given failure to take account of stock consumption by the licensee and staff as a reason for the shortfall in the Fox and Hounds gross profit percentage.

It's not unusual for management and barstaff to be given a daily drink allowance, and there may be occasions when complimentary drinks are served to customers.

In a restaurant situation, where a similar calculation is made to find out the food cost percentage, some of the food may have been eaten by management and staff.

The value of stock consumed in this way will distort the gross profit margin . . . and so it should, you might argue, since these are costs that have to be set against sales income.

However, as you will know, gross profit percentages are an important means of checking that price levels are satisfactory, and protecting the business against excess wastage, fraud and so forth. So from this point of view, the more accurate the gross profit calculation can be the better.

ACTIVITY 12
Time guide: 10 minutes

Rework the Fox and Hounds gross profit margin after taking account of an adjustment of £120 for complimentary, management and staff drinks.

	£	£
Bar sales (ex VAT)		*2600*
Value of stock 1st Sep	*2264*	
Purchases during month	*1080*	
Sub-total	*3344*	
Value of stock 30th Sep	*2132*	
Sub-total	*1212*	
Less adjustment	*120*	
Cost of sales		....
Gross profit		....
Gross profit percentage		...%

The gross profit at the Fox and Hounds has increased to £1508 after taking into account the cost of complimentary, management and staff drinks, and the gross profit percentage improved by four points to 58%.

If the Fox and Hounds operated a cellar requisition system, the reason for the discrepancy might be traced to errors which have occurred between the arrival of the goods at the pub, and their issue to the bars.

The cellar would be treated as a separate cost centre and the results of the stocktake kept separate. If the systems are operating correctly then:

Value of stock in cellar at 1st September	1845
+ purchases during Sep handled by cellarman	1005
	2850
- value of stock in cellar at 30th September	1732
= value of stock issued to bars during month	1118
Value of requisitions during month:	
week 1	432
week 2	205
week 3	238
week 4	243
total value of requisitions in September	1118

Yet another reason for the Fox and Hounds gross profit discrepancy could be shortcomings in the sales control systems and procedures. This is covered in the next section.

SUMMARY

- **All deliveries should be checked for quality and quantity, and against delivery note/invoice and copy of order.**
- **Discrepancies should be brought to the attention of the supplier without delay, and appropriate action agreed and followed up.**
- **Storage areas must be secure, maintain the appropriate conditions of temperature and humidity, and meet the relevant legal requirements.**
- **Stock levels should be appropriate to the amount of storage space available, pattern of use, frequency of delivery, shelf-life of product, and purchasing policy of establishment.**
- **Stock records should indicate what is currently in stock, with the reason and extent of changes over time to stock levels. They should be reliable to provide a check against malpractice, and purposeful to provide guidance to more effective purchasing.**
- **All movement of stock within the operation should be monitored. The requisition or internal order form is the usual control document.**
- **Regular stocktakes are necessary to check stock usage with sales revenue, to discourage malpractice, and to review stock turnover levels.**
- **To provide an effective control measure, calculations of gross profit percentage must take account of authorised consumption by management and staff.**

For more details on purchasing and stock control, you should refer to *Guide to Effective Purchasing*, HCTC, 1992.

SECTION 2.3

Procedures for handling cash

After working through this section you will be better able to:

- state the various stages in sales control
- balance up cash takings
- identify the principal security and safety risks in handling cash, foreign currency, cheques, vouchers and so forth
- describe procedures which will minimise these risks
- deal effectively with irregularities and discrepancies which do occur.

The objective of sales control is to ensure that there is a proper basis for determining:

- *what* has been sold
- *when* it has been sold
- *where* it has been sold
- *by whom* it has been sold

and for reconciling this with:

- *sales takings* - in the form of cash and cash equivalents such as cheques, credit card transactions, foreign currency, and so forth.
- *stock usage.*

As we found in the sections on purchasing and stock control, the level of sophistication varies according the size and characteristics of the operation, and management policy.

In a small pub, run and staffed by the freehold licensee and his wife, selling drink only from one bar:

- *what* has been sold will relate to alcoholic and non-alcoholic drinks, but there is unlikely to be much benefit in analysing sales of beers, spirits, wines and so forth separately. Stock records and personal involvement in the business probably provide sufficient information on the popularity of and profitability of different product types
- *when* it has been sold: a daily total will probably be sufficient, but if the pub is closed in the afternoon, takings may be split into morning and evening sessions
- *where* it has been sold: there is only one bar, so this question does not arise
- *by whom* it has been sold: as the licensee and his wife own and run the pub, and do not employ barstaff, they have no need to build-in checks on the honesty or productivity of individuals.

The publican or his bookkeeper will use the record of daily *sales takings* to calculate total sales income for the trading year. Movement of cash in and out of the business and its bank account will be controlled through the cash book.

Because the pub's owners are the only people involved in the running of the business, the main benefit of checking that cash takings over a particular period match *stock usage* in that period is peace of mind. A close match between the two calculations means that stocks are secure from outside theft, deliveries have been properly checked, wastage has been controlled, and so forth.

ACTIVITY 1
Time guide: 15 minutes

Read the following case study, then in the space below comment on what might have gone wrong.

The staff restaurant at the small firm of Incorporated Insurance plc operates on a partly-assisted counter service system, the customers helping themselves to rolls, packs of butter, cans of soft drink, pre-plated salads, sweets and so forth, and being served the main course items and vegetables. Sheila, the chef manager, is worried by a sudden increase in her weekly food cost percentage.

- *She prepares all the menu items herself, and knows that she has been following the standard recipes closely.*
- *A check on the suppliers' invoices shows that there has not been a significant increase in prices.*
- *At the end of each service, she personally does the till readings, and reconciles the cash taken with what has been rung up. There have been no significant discrepancies.*

The problem seems to be occurring in the restaurant itself:

- portion sizes are not being adequately controlled, perhaps because the counter service staff give extra large helpings to favourite customers, or they are using the wrong serving equipment, or they do not know what the correct size portion should be
- wastage is occurring through incorrect storage, perhaps because the staff over-order to avoid running out at peak time
- the wrong prices are being charged
- customers are not being charged for some items: it is not unknown for staff to overlook certain items on customer's trays because they think the prices overall are too high, and want to avoid criticism and unpleasantness from customers.

Lack of supervision and, or poor training may be the underlying reason for these problems. Staff do need to be told what the standards are - whether this is done by the use of formal performance standards, photographs of the finished dish, on or off-job training, or a combination of these methods.

ACTIVITY 2
Time guide: 5 minutes

Think of the sales control system as it might apply to a small bar which has a special line in cocktails. Ordinary cash tills are in use, so there is no breakdown of sales by product type. Professional stocktakers report after the end of each four week period on the closing stock, and the bar manager keeps careful check of what has been issued to the bars during the same period. Note briefly the problems you envisage in trying to reconcile sales income with consumption.

There are two aspects to be considered in bar sales control:

1. Accounting for products which are wasted and those which are consumed but which, for some reason, are not paid for, so:

   * proper records need to be kept of breakages and spillages, loss when the beer pipes are cleaned, faulty bottles of wine and so forth
   * records must also be kept of complimentary drinks, and items consumed by management and staff

2. Allowing for the distortion caused when prices for mixed products - shandies, lager and lime, rum and blackcurrant, gin and bitter, whisky and soda, cocktails, and so forth - are less (or more) than the sum of the individual selling prices.

If the cocktails were offered at a lower price during the early part of the evening - 'Happy Hour' - an allowance would also have to made for the effect on sales revenue. In this situation it is usual to keep a record of the till reading before and after each Happy Hour.

In a motorway service area, sales control is altogether more complex. Even if we ignore activities connected with the sale of petrol, diesel, oil and so forth, the amusement machines and pay-telephones, there will be:

* a shop selling books, magazines and newspapers, sandwiches and snacks of various sorts, soft drinks, confectionery, cigarettes, gifts and so forth
* various outlets serving food and drinks, typically a self-service restaurant, a table-service restaurant, a fast food restaurant, and a snack bar.

Let us consider again the six aspects of sales control, first in relation to this example of a motorway service area, and then in relation to your own operation.

1. ***What*** has been sold

The motorway service area sells a very wide range of products, with a very wide range of characteristics. For example:

in the shop

- the profit margin will vary from one product group to another - quite high on gifts, for example, and quite low on newspapers
- sales of some products will be subject to fashion - a new book that has caught the public's imagination, for example, the latest craze in children's toys, or a recording of a pop song that's No 1 on the hit parade
- some products such as newspapers and sandwiches, will have a limited shelf life
- some of the products will be high value items - luxury perfumes, for example

in the fast food outlet

- a limited range of food and drinks items is sold, each the subject of strict quality and portion control
- profit margins will vary according to the item, particularly if there are special offers, or all-in prices for particular combinations of burger, French fries and a soft drink

in the self-service restaurant

- a more extensive range of food and drink items is offered, many priced on a per item basis - per grilled tomato, per sausage, per portion of baked beans, per bowl of cereal, per pot of tea, per portion of butter or margarine, and so forth
- profit margins will vary, particularly for dishes of the day, special meal combinations, and seasonal offers.

2. ***When*** it has been sold

As we have discussed earlier in this unit, the sales pattern at a motorway service area can fluctuate considerably according to the season of the year, day of the week, the weather, roadworks, and so forth. And, as we have also discussed, it is important to predict patterns of business, so that the best decisions can be made on staffing and stock levels, and which facilities are open for what portions of the day and night. Decision-making of this sort is greatly helped by records of sales in each outlet over particular segments of the day - by the hour in the fast food restaurant, for example.

ACTIVITY 3
Time guide: 10 minutes

Think now of ***what*** *is sold in your workplace (or an establishment you know well), and* ***when*** *it is sold. List the various products and services in the space below, and briefly note their main characteristics in relation to sales control.*

3. *Where* it has been sold

From what has already been said about the motorway service area sales outlets, it will be clear that a separate sales analysis is required for each outlet.

4. *By whom* it has been sold

In the busy fast food restaurant at a motorway service area, sales income can be considerably affected by the skills and attitude of the counter staff. Each member of staff is responsible for taking the customer's order, collecting payment, and then serving the food. Providing a breakdown of sales per person is therefore a useful measure of that person's selling skills, and speed of work. The results are often linked to an incentive scheme for staff.

By contrast, in the shop or self-service restaurant, one or two cashiers will be on duty at any time to deal with customers. The fact that Eric Wilson has taken £850.67 in his shift, as opposed to Janet Coleman's £1205.42 is not generally a reflection on their relative skills as cashiers. After all, their task is principally to collect payment for goods customers bring to them in a shopping basket, or on a tray. Other factors such as merchandising are at play in influencing what customers choose as they progress through the shop or self-service food counters.

ACTIVITY 4
Time guide: 10 minutes

Return now to your situation, and note below: (i) each outlet or department for which a separate sales analysis is required; and (ii) the need, if any, to use the sales takings of individual members of staff to measure their selling skills and speed of working.

5. Sales takings

The motorway shop, the self-service and fast food restaurants share an important aspect of sales control: reconciling the till's record of sales with what the cashier hands over at the end of the shift: notes, coins, vouchers, credit card vouchers, cheques and so forth.

Where only one person has access to the till and cash drawer, then that person can be held to account for any discrepancy. Where two or more people have access to the same till, control is more difficult unless each person has their own cash drawer and till identification.

6. Stock usage

In most motorway sales outlets, the tills record not only the selling price of each item sold, but what that item was. Sometimes this may be general, as in 'newspaper', rather than specific, as in 'grapefruit juice'.

Earlier in the self-study unit, we have touched on the usefulness of this level of detail. Say the shop tills have recorded sales of 250 audio-cassettes over the last week:

* if 400 cassettes were in stock at the beginning of the week, then there should be 150 left. If the stocktaker recorded only 121 in stock, the evidence is that customers and/or staff have found a security loophole, allowing them to pilfer cassettes. This is so much easier than the knowledge that there is an overall stock shortfall for the shop of £360

* the person responsible for purchasing knows immediately the sales pattern of audio-cassettes. This is an easier and more reliable alternative to examining the storekeeper's individual stock record cards and setting up minimum and maximum stock holdings.

In the self-service restaurant, the detailed sales analysis allows for much tighter production control. Say 50 sausages were issued to the chef responsible for cooking breakfast, then at the end of breakfast service, this should tally with:

number of sausages sold
+ *number of sausages cooked for staff breakfasts*
+ *number of sausages damaged during service, and therefore unsold*
+ *stock of uncooked sausages remaining at end of service*

ACTIVITY 5
Time guide: 15 minutes

In the last section, you looked at the factors which might have caused the shortfall in the gross profit percentage at the Fox and Hounds. You were asked to concentrate on aspects to do with purchasing and stock control. Now list (a) those aspects of sales control which might be to blame; then (b) any other areas where poor sales control might cause difficulty in a pub situation.

(a) inadequacies in sales control which might explain a shortfall in gross profit percentage at a pub

* accidents/wastage not recorded
* complimentary drinks not recorded
* staff pour over-measures
* staff make errors on pricing
* staff add-up drink orders incorrectly, or omit to charge for items
* cheques accepted without following proper procedure, and errors or the state of the drawer's bank account leads to bank's refusal to pay
* shortfalls in cash takings are tolerated, or not discovered, and dishonest staff take advantage of the situation

(b) other potential sales control difficulties in a pub

* breakages and spillages recorded when they did not occur, or their extent exaggerated
* fictitious off sales recorded (ie full bottles of spirit sold from the bar at a lower price than would be charged for individual measures)
* spirits diluted by barstaff, so that the yield per bottle is higher, staff pocketing the extra revenue
* staff substituting less expensive brands for premium brands, charging the higher price and pocketing the difference
* staff bringing their own supplies into the bar and selling them
* short measures being served
* customers being overcharged
* function customers being overcharged - it is always difficult for the organisers of a cocktail party, for example, or a wedding, to estimate what value of drinks their guests really have consumed.

Training barstaff in the correct procedures would overcome most of the first group of problems, and help towards overcoming the second group. Other useful control measures for counteracting the second group of problems include:

* stamping all stock with a visible (or invisible) code
* spot-checking spirits for adulteration, using a Sykes Hydrometer
* selling customised brands wherever possible, which staff cannot purchase privately
* issuing on a full for empty basis, and crushing empty non-returnables to prevent their re-use
* checking on abnormal sales of specific items
* watching for possible collusion between barstaff and, say, cleaning staff (or others in a position to bring in outside stock)
* conducting random stocktakes.

ACTIVITY 6
Time guide: 15 minutes

Now consider the control of sales income and stock usage in your situation. In the space below, note the special factors you have to take into account and how you deal with these. (Having worked through the self-study unit, you might find it more appropriate to describe how they should be dealt with.)

In trying to apply to your own experience, the points that we have raised, you will almost certainly have found lots of areas where the control issues are less straightforward. Many of the products and services sold in the hotel and catering industry cannot be controlled in the same way as the audio-cassettes or sausages sold in a motorway service area. Nor is the situation as simple as the pub example with which this section started. The trick is in finding a way of applying the principles.

For example, hoteliers will immediately think of the problems of accounting for bedroom sales. The most sophisticated analysis of room and bed occupancy is no protection against the dishonest night porter who gets advance payment in cash from a late arrival, and 'forgets' to ask the guest to complete a registration form. Of course no other details are entered into the front office accounting system, and with the hotel management unaware that the room has been let, the porter can safely pocket the cash.

However:

* the alert manager will spot and investigate any discrepancies between the housekeeper's report of rooms occupied, and reception's records
* effective control by floor and head housekeepers will prevent servicing of rooms without their knowledge - otherwise it's possible that the person servicing the room is in collusion with the night porter
* the installation of electronic key cards may also prevent unauthorised occupancy of rooms. But if the master key cards are not adequately controlled, the porter might let the guest into the bedroom using a master key, making some excuse to the guest why a proper key cannot be issued.

And in many food and beverage operations, it's simply not practical to follow the sausage example in trying to match stock usage with sales.

However:

* the rule can be strictly enforced that no food is issued from the kitchen without a check carrying the initials or other identification of the waiter or waitress
* after each meal service, the food checks are matched up by a control clerk with what was actually billed to customers by the restaurant cashier. If 5 spinach soufflés were ordered from the kitchen, then evidence should be found from the carbon copies of guests' bills that 5 spinach soufflés were paid for.

BALANCING CASH TAKINGS

A few pages back, when you considered your own experience of controlling sales income, you may have mentioned procedures for cashing up. For it is at this point that discrepancies should be identified between the till's record of sales, and what is handed over by the person responsible for taking payment.

ACTIVITY 7

Time guide: 10 minutes

Compare with the following checklist, your workplace procedures for balancing cash takings (including cheques, vouchers, and other cash equivalents) at individual sales outlets in the bars, restaurant, reception, shop and so forth. Where your answer to the question is no, note how control is exercised and what, if any, improvements you will be considering.

1. Is the value of the float checked regularly by a manager?

2. Is the cash counted and removed from the till by a manager?

3. Is the till reading carried out by a manager?

4. Is the till reset to zero by a manager?

5. Is a manager responsible for reconciling cash takings with till readings?

6. Are discrepancies between cash takings and till readings investigated promptly by a manager?

Use the remaining space for any other comments

You may have been puzzled by the use of the word 'manager' in each of the six checklist questions. In some luxury restaurants, for example, the cashier will be responsible for analysing guests' bills at the end of lunch or dinner service. If this is done in a book rather than on a till or computer terminal, separate analysis columns are likely to be used for entering food sales, wine sales, drinks from the bar, liqueurs and cigars, cover charge, service charge, VAT and so forth.

The cashier then adds up the total for all categories to check that they agree with the total amount paid by guests. This is then checked with the amount of cash taken, before the cash and analysis book is handed over to a manager.

In this situation, control is exercised overnight or the following day. Typically, the night auditor or a control office clerk will marry up the cashier's records with the food checks collected from the kitchen, wine and drink checks from the dispense bar and so forth.

By contrast, in many pubs the tills will be totalled and emptied by the licensee or manager when shifts change, or after the staff have gone off duty.

ACTIVITY 8
Time guide: 15 minutes

Now compare with the checklist opposite, the control measures which are used in your workplace with regard to handling cash, foreign currency, cheques, vouchers and so forth. Note below what steps should be taken to tighten up security in your workplace.

ACTIVITY 8 ctd

GENERAL CASH CONTROL MEASURES

* *Notes are kept outside the till until the correct change has been collected.*

* *Staff count change back to customers.*

* *Staff check each other when dealing with £20 notes or above (or a manager checks).*

* *Staff check for, and reject foreign coins.*

* *Large notes are held up to the light to check that the metal strip is present (an anti-forgery device).*

* *Staff are trained to follow proper procedures for dealing with payment by cheque, credit card, direct debit card, travellers cheque, voucher, foreign currency, and so forth. (You will find these summarised in the Mastercraft books: Front of House Operations and Health, Hygiene and Safety in the Hotel and Catering Industry.)*

* *All monies are placed in the till and the till drawer is always kept closed.*

* *The manager periodically removes large notes from bars and restaurant tills on busy nights, and places them in the safe where they will be more secure.*

* *Under or over rings are immediately drawn to the attention of the manager.*

* *'No sales' rings are not allowed. This may mean that a small float has to be kept separately if customers ask for change from the barstaff, say to use the telephone.*

* *Till reading, cashing up and banking is a manager's responsibility.*

* *Cheques are not cashed unless the manager has given specific permission.*

* *No credit is given.*

* *Unless the business is registered as a foreign exchange dealer, ensure that staff know not to give change in a foreign currency, even if the customer requests this. Train staff who might have to handle foreign currency to recognise the notes they are likely to encounter, and to check with management where they are not sure about the validity of the note.*

* *All breakages and faulty goods are reported to the manager.*

* *When cash takings are being checked, or money prepared for banking, this is done in the presence of a security officer, or in a locked office.*

* *Money is carried in security bags, and the person carrying the money is accompanied by a colleague. Wherever possible, a vehicle is used to transport money to and from the bank. Such trips are made at random times, and using different routes.*

SUMMARY

- **Sales control techniques depend on the size and complexity of the business and its management structure.**
- **Analysis of sales by product or product group is an aid to effective purchasing and stock control.**
- **Detailed analysis of when sales take place can help in planning staffing and stock levels.**
- **For effective control of the various departments or units within an operation, sales have to be analysed separately for each.**
- **Sales analysis by individual member of staff can help monitor that person's selling skills and speed of working.**
- **Control of sales takings is difficult when more than one person uses a particular till or cash drawer.**
- **Stock usage con be monitored more precisely when sales are recorded by product or product group.**
- **Management should generally take responsibility for counting cash takings and reconciling them with till readings, and should carry out spot-checks of cash floats.**
- **The setting up of appropriate control procedures, and giving staff training in following those procedures, will minimise the safety risk of handling cash and cash equivalents.**

Controlling Costs

USER'S QUESTIONNAIRE

To help us help you,
please spend a
few moments
completing this
questionnaire

When you have completed the questionnaire, please tear it out of the self-study unit, and return it in an envelope - NO STAMP required - to:

Roy Hayter, Publications Manager
Hotel and Catering Training Company
FREEPOST
Ealing
London W5 5BR

PERSONAL DETAILS

JOB TITLE: ....

TYPE OF ORGANISATION YOU WORK FOR: ....

....

Hotel, restaurant, pub, hospital, contract catering, employee feeding, and so forth

SIZE OF THE ORGANISATION YOU WORK FOR: ....

....

Number of bedrooms/covers/meals served/annual turnover, and so forth

YOUR AGE: ....

QUALIFICATIONS OBTAINED SINCE LEAVING SCHOOL: ....

....

....

QUALIFICATIONS YOU ARE CURRENTLY WORKING TOWARDS: ....

....

....

YOUR REASON(S) FOR WORKING THROUGH THE SELF-STUDY UNIT *CONTROLLING COSTS*:

....

....

1. How did you get the self-study unit *Controlling Costs*:

Tick as appropriate

[ ] as a delegate on the HCTC course

[ ] by buying it through the HCTC *Training Support* publications catalogue

[ ] through a college
Please name college: ....

[ ] other way
Please describe: ....

2. Over what period of time were you working through the self-study unit *Controlling Costs*:

Tick as appropriate

[ ] less than 3 weeks

[ ] 3 to 4 weeks

[ ] 4 to 7 weeks

[ ] more than 7 weeks

3. In total, how many hours do you think you spent reading the text and doing the activities:

Tick as appropriate

[ ] less than 15 hours

[ ] 15 to 20 hours

[ ] 21 to 25 hours

[ ] more than 25 hours

4. Did you work through the self-study unit:

Tick as appropriate

[ ] in the order it is printed

[ ] other order

If other order, please describe:

....

5. What other HCTC self-study units have you used:

Tick as appropriate

[ ] Task Management

[ ] Communications

[ ] Leadership and Motivation

[ ] Rights and Responsibilities

Other, please give title: ....

6. Generally, did you find the self-study material:

☐ Very interesting
☐ Interesting
☐ Uninteresting
☐ Very uninteresting

7. Generally, was the level of the self-study material:

☐ Too basic
☐ About right
☐ A bit too advanced
☐ Much too advanced

8. How useful was the self-study material in terms of your job/career:

☐ Very useful
☐ Useful
☐ Not useful
☐ Don't know yet

9. Generally, how useful were the activities in helping your understanding of the text

☐ Very helpful
☐ Helpful
☐ Not helpful
☐ Not at all helpful

10. Generally, how useful were the activities in relating what the text said to your own experience and workplace situation:

☐ Very helpful
☐ Helpful
☐ Not helpful
☐ Not at all helpful

11. Generally, were the time guides on activities:

☐ Helpful and accurate
☐ Helpful but not realistic
☐ Not helpful
☐ Misleading

12. Please indicate how useful you found each section:

	Very useful	Useful	Not useful
Section 1.1 *A framework for managing resources*	☐	☐	☐
Section 1.2 *The cost areas of a business*	☐	☐	☐
Section 1.3 *Control systems and techniques*	☐	☐	☐
Section 2.1 *Identifying equipment and supply needs*	☐	☐	☐
Section 2.2 *Controlling the receipt, storage and issue of resources*	☐	☐	☐
Section 2.3 *Procedures for handling cash*	☐	☐	☐

13. If you also attended the HCTC course on Controlling Costs

(a) generally, how did you find the match between the course and the self-study material:

☐	☐	☐	☐
Very good match	Good match	Poor match	Very poor match

(b) how helpful did you find the self-study material to your understanding of what was covered on the course:

☐	☐	☐	☐
Very helpful	Helpful	Not helpful	Not at all helpful

(c) how helpful did you find the self-study material in completing the tutor-marked assignments:

☐	☐	☐	☐
Very helpful	Helpful	Not helpful	Not at all helpful

14. Please describe, in your own words:

(a) The best thing about the self-study unit

....

....

....

(b) The worst thing about the self-study unit:

....

....

....

15. Please use the remaining space to make any other comments about the self-study unit (and the course), and to make suggestions or recommendations for improving the material.

Resource Management

------MODULE------

CONTROLLING COSTS

ASSIGNMENTS

If you are a delegate on the HCTC course, you will receive a PVC planner, with another set of identical assignments, printed on A5 card. You may wish to use the pages that follow in the self-study unit to plan your answers. They should then be written up properly on the cards in your planner, before submitting them to your HCTC tutor.

GUIDANCE NOTES ON COMPLETING YOUR ASSIGNMENTS - *A REMINDER*

1
When you are ready to carry out the assignments for *Controlling Costs*, discuss them with your immediate boss or assessor and agree how to proceed. It is also important that you work through the self-study unit first - doing so will not only give you the information you need to complete the assignments successfully, but is likely to help when it comes to assessing your competence for the NVQ/SVQ level 3 units concerned with the management of resources.

2
Read the whole assignment carefully and plan your answer to each question before starting to write anything. It may help to make notes or even a first draft on rough paper. (HCTC course delegates may wish to use the following pages for their rough draft.)

3
For the final assignment, you should write or type your answer in the space provided on the assignment pages/cards. Do not write in pencil - black ink is best.

4
Aim to make each answer clear, simple, understandable and logical.

5
The address panels at the end of each assignment are for use when your assignments have to be sent off to be assessed. You are then advised to make a photocopy of the assignments for yourself, before sending the originals off.

. . . . *The name and address*

. . . . *of your assessor*

. . . .

CASE STUDY

Rachel Cousins has just taken over as manager of the West Lodge Hotel's leisure centre. Before her appointment, responsibility for the centre was that of Walter Pearce, the deputy general manager, and son of the hotel's owners. Walter has a degree in hotel and catering management and since graduating three years ago, he has worked in various departments of the hotel to gain experience for the day, not too far distant, when he takes over as general manager. As deputy general manager, he had little time to look after the leisure centre properly, and most of his attention was spent on the marketing side.

The centre was opened 18 months ago, as part of a £½ million improvement scheme to upgrade the 200 room, 4-star hotel. Well fitted with the latest equipment, the centre has proved popular with hotel guests and definitely been responsible for attracting new business. A few months after the opening, in response to many enquiries, the West Lodge Leisure Club was formed, and membership offered to local residents for a substantial annual fee. There is already a waiting list.

The leisure centre facilities include a bar, from which a range of low alcohol and non-alcoholic drinks are served, a limited, but well-balanced menu of healthy snacks and light meals, and a small shop selling a range of sportswear.

The leisure centre opens every day of the week from 6.30 am to 11 pm, and the bar from 10 am to 10 pm. Bar duties (which include handling food orders) are split between Bruce and Mary-Ann, with the assistance of a trainee and, in peak periods, staff called in from other departments in the hotel. When extra help is needed, the hotel duty manager has to be called upon to find more staff.

Whoever is on duty the evening before, places the order with the chef for the next day's salads and other food. The food arrives from the kitchen at about noon, and is then arranged in the chilled food counters, with reserves kept in under-counter refrigerators. Other items such as fresh fruit juices, herbal teas and so forth are requisitioned first thing each morning from the hotel's storekeeper, and delivered about 10 am. Saturday's order has to cover Sundays, although emergency arrangements can be negotiated with the hotel weekend duty manager.

Mineral waters, soft drinks, low alcohol wines and lagers are requisitioned from the hotel's cellar manager. Orders have to be in by 8 am on Mondays and Wednesdays, for delivery the following day.

Janice, the leisure centre receptionist, on duty from 10 am to 6.30 pm, Wednesday through to Sunday, is responsible for the shop. At other times, one of the centre's fitness advisors looks after the shop, and performs the receptionist's other duties, such as booking facilities and handling member's enquiries. Janice has gradually become the main decision-maker as far as the shop's range of stock and selling prices are concerned, although the orders have to be countersigned by the hotel general manager. As word has spread that there is a shop in the leisure centre, more and more sales reps has taken to calling in, usually without an appointment, to try and tempt Janice to stock their products.

There is a cash till for the bar, and another in the shop/reception area. A range of credit cards are accepted, and sometimes the staff are asked to change foreign currency and non-Sterling travellers cheques, as the hotel is popular with overseas business visitors.

Leisure Club membership matters are handled by the personal assistant to the hotel general manager, including collection of annual fees. The system of insisting that all fees are paid in advance has lapsed somewhat, and there have been a number of instances recently when a memo has had to be issued to the leisure centre staff instructing them not to admit certain people who have defaulted on their payment, even though they carry current membership cards.

For admission to the leisure centre, hotel guests should be asked to produce their key card. However if no staff are at the reception desk at the time guests or members arrive, or the person arriving is known to staff, no check is made.

The leisure centre has its own supply of linen - mostly towels and towelling robes. There is no distinction in design between this linen and that generally used by the hotel, and everything is laundered in-house.

> ANSWER THE FOLLOWING QUESTIONS

1
What are some the things that could be going wrong at the West Lodge Leisure Centre, and which Rachel Cousins should look at in terms of tightening up cost control? Various hints have been given in the case study, and although the failures might be attributed to Walter Pearce, you can assume that he will look upon all Rachel's suggestions favourably. Organise your ideas by activity area, following the headings below (or your own headings if you prefer). For each area, try and list at least three points.

Food operations

Bar operations

Cash handling

Shop

Linen

Staffing

Membership/general administration

2

Now look at **one** of these areas in greater depth, and describe below and overleaf the steps you would take to improve control, assuming you were in Rachel Cousin's position. You are free to choose the area you know best, or one that interests you particularly, and to assume any details which you feel are necessary, but lacking in the case study.

Present your recommendations and plans as clearly and precisely as possible, on the assumption you would be showing them to Walter Pearce, the deputy general manager.

Your name and address PLEASE PRINT

. . . .

. . . .

. . . .

Your signature . . . .

Your manager's signature . . . .

Date . . . .

NOW SEND THIS TO YOUR TUTOR

Now that you have attended the HCTC course and worked through the self-study unit, consider what recommendations and improvements you intend to make to the management of resources in your department/unit. As appropriate, deal with the receipt, storage and issue of resources, the identification of equipment and supply needs, and the handling of cash/cash equivalents and foreign cash/cash equivalents.

1

Describe briefly the resources - materials, equipment, personnel, money, energy, time and information - within your control, and how they are controlled at present - including your role and that of your staff. Begin with those resources that have the most significant affect on the financial well-being of your company or organisation. (More space is available overleaf.)

2

Describe how the management of resources could be improved in your workplace, and set out an action plan of who will be involved, and the timescale. Attach samples of documentation and reporting forms where necessary, annotating them to show where improvements will be made. (More space is available overleaf - but if your plans involve a large variety of different resources, and the details differ substantially depending on the resource, you may base your answer on two or three sample resources.)

3
Describe how you will train your staff to carry out the proposed changes, and persuade them of the benefits, so that they are well motivated.

4

Agree with your manager what aspects of your action plan can be implemented immediately, so that the results can be evaluated over the next few weeks. Then use the space below to report on the results.

Your name and address PLEASE PRINT

Your signature

Your manager's signature

Date

NOW SEND THIS TO YOUR TUTOR

1

On the basis of what you have covered on the course and in the self-study unit, identify one area in your workplace where substantial cost savings could be made. This might involve:

* changing a cleaning procedure, or cleaning agent
* modifying a recipe
* re-arranging staff rotas
* using disposable or hired equipment
* reviewing procedures for confirming reservations.

Briefly describe the area you have chosen, the current procedure and costs.

2
Describe your proposals for cost savings, and quantify the amount that can be saved on a weekly/monthly/yearly basis as appropriate.

3
Describe how you presented your proposals to management, colleagues and the staff involved, and their reaction.

4

Describe the results after your cost saving procedures have been in place for an appropriate period.

Your name and address PLEASE PRINT

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. . . .

Your signature . . . .

Your manager's signature . . . .

Date . . . .

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